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A JOINT PUBLICATION OF THE SOUTHERN ECONOMIC ASSOCIATION
AND THE UNIVERSITY OF NORTH CAROLINA

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The SOUTHERN ECONOMIC JOURNAL

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FOREWORD

This issue of the *Southern Economic Journal* commemorates the twenty-fifth anniversary of the Southern Economic Association and marks the beginning of the twentieth year of the *Journal's* life. Since its inception the *Journal* has indeed grown in stature and in favor with economists and other social scientists. Its swaddling years were halting and precarious. Volume I, No. 1, published in October, 1933 had only 16 pages containing a single article and the program for the Association's sixth annual meeting. It took the *Journal* 16 months to become officially a yearling. By then it had added a book review to its leading article and had grown by 10 pages. While it began its second official year in May, 1935 auspiciously by adding four book reviews, five months later when the next number appeared it almost expired. Its leading article and all book reviews had disappeared. All that remained was the program of the Association's eighth annual meeting.

With the January, 1936 issue under the joint auspices of the Association and the University of North Carolina, the *Journal* took on new life. Since that date it has appeared quarterly with a format and a content worthy of its sponsors. Begun primarily as an outlet for the thought and writings of Southern economists dealing largely with Southern problems, the *Journal* has steadily broadened the scope of its usefulness and influence. A few additional statistics reflect the trend. The first four numbers under its new auspices contained 23 articles, all but three of which either dealt with Southern problems or were written by Southern economists. The *Journal's* latest volume (1951–52) contained 31 articles, the authors of which represented 23 institutions in 16 states stretching from the Pacific to the Atlantic. Appropriate to its auspices, Southern economists still predominate among its contributors and Southern problems among its topics, but appropriate to the South's growing stature in industry and education, the *Southern Economic Journal* is taking its place among professional journals of national significance and thereby proving that ideas recognize no boundary lines and transgress the principles of regionalism.

George W. Stocking, *President*
Southern Economic Association
Robert B. House, *Chancellor*
University of North Carolina

Walter J. Matherly

First President of the Southern Economic Association, 1927-1928, 1929-1930

VOLUME XIX NUMBER 2

The SOUTHERN ECONOMIC JOURNAL

October 1952

THE HISTORY OF THE SOUTHERN ECONOMIC ASSOCIATION, 1927–1952*

WALTER J. MATHERLY AND JOHN B. McFERRIN

University of Florida

The Southern Economic Association had its beginnings in the fall of 1927.[1] On October 24 of that year, the writer sent a letter proposing the organization of this association to each of the following persons: Dean D. D. Carroll, School of Commerce, University of North Carolina; Dean Lee Bidgood, School of Commerce and Business Administration, University of Alabama; Simeon E. Leland, then Associate Professor of Economics, University of Kentucky; and Mercer G. Evans, then Associate Professor of Economics, Emory University. The letter contained the following words: "The faculty of the College of Business Administration, University of Florida, has originated the idea of organizing a southern economic conference to be composed of the faculty members of colleges of business administration and departments of economics in the South. . . . At the suggestion of our faculty, I am taking the initiative of calling together in Atlanta, Georgia, within the next month or so, a representative from each of the following universities: Alabama, North Carolina, Kentucky and Emory. The five of us are to compose a committee for working out the details of this conference."

Each of the persons to whom this letter was written replied immediately. On October 28, Bidgood wrote that "your plan of a sectional association of teachers of economics and business administration is interesting and I shall be glad to assist in every way I can, if you decide to push the matter." On October 28, Carroll replied that he was interested but that pressure of time and limita-

* "The History of the Southern Economic Association, 1927–1939," by Walter J. Matherly, was published in this *Journal*, October, 1940 (Vol. VII, No. 2). The present article, which has been prepared in recognition of the 25th anniversary of the founding of the Southern Economic Association, has attempted to bring the history up to date. The earlier part of this present article is reprinted without change. Dean Matherly's participation in the founding of the association was so prominent that any change in the account he gives suggested by one who was not so engaged would be indeed presumptuous. The reader, therefore, is asked to remember that where the expression "the writer" or "the author" is used in the account of the founding and early years of the association the reference is to Dean Matherly alone. JBM.

[1] There are three principal sources of data of which the author has made use in preparing this article: first, letters which he has written to and letters which he has received from various individuals in the South; second, minutes of the annual meetings of the association; and third, minutes of the executive committee of the association. The letters are on file in the office of the author and the minutes are on file in the office of the secretary-treasurer of the Southern Economic Association. Unless otherwise specified, all statements of fact as well as all quotations herein used are taken from these sources.

tions of budgets would "prevent us from being represented at Atlanta." He made the suggestion that "we communicate with all teachers of economics and business subjects in southern educational institutions, urging them to attend the meeting of the American Economic Association in Washington during the Christmas vacation, and also notifying them of the plan to organize a group at this time." Leland, in his reply of October 29, made a similar suggestion saying that "we could then formulate our plans and sometime before the meeting closed we might be able to get a number of others interested in our project so that we could get a membership committee representing all parts of the South." Evans replied on October 26 to the effect that he was "delighted" to cooperate and that he had consulted representatives from Oglethorpe University, Agnes Scott College, Alabama Polytechnic Institute, University of Georgia, and Georgia School of Technology who expressed a desire to join in with the proposal.[2]

On the strength of the replies to this letter plus the assurance of Evans that representatives of Oglethorpe University, Agnes Scott College, Alabama Polytechnic Institute, University of Georgia and Georgia School of Technology were eager to join in, the writer called a meeting of representatives of ten institutions to be held at the Henry Grady Hotel in Atlanta, Georgia, December 10, 1927. Bidgood, Leland and the writer were present at this meeting. Evans could not attend due to a conflicting engagement which he had in Greensboro, North Carolina, but James W. Martin, then of Emory University, represented him. Carroll did not attend this meeting nor did he send any one to represent him or the University of North Carolina. Mercer University at Macon, Georgia, however, sent a delegate, and "ten colleges and universities in the South" altogether were represented.[3]

[2] Prior to mailing out the foregoing letter certain steps looking toward the organization of a southern conference had already been taken. In the winter of 1926 C. A. Curtis, then Associate Professor of Finance at the University of Florida and the writer conceived the idea of an association of teachers in economics and business in the South. They talked it over several times. They discovered that Leland to whom reference already has been made was also thinking along the same line. During the summer of 1926, Leland and Curtis had two meetings at which they argued the matter pro and con. At the suggestion of the writer Curtis prepared a report on the results of his and Leland's thinking consisting of nine typewritten pages which contained detailed statements as to the length of the conference, the nature of its program and the methods to be used in organizing it. Curtis pointed out in the report that an organization was needed because of the lack of close contacts between faculty members in southern colleges and universities, because of the rapid economic transformation which was going on in the South and because southern economic and business teachers found it difficult, due to costs of long-distance travel, to attend the meetings of the American Economic Association which were always held in the North. The report which Curtis made was presented to the faculty of the College of Business Administration of the University of Florida and the action which was taken by that faculty caused the writer to send the letter to Bidgood, Carroll, Leland and Evans.

[3] "The Southern Association of Instructors in Economics and Business Administration —Origin, Purpose, Present Status, and Tentative Program for First Annual Meeting." This is a mimeographed report consisting of two pages which summarized the results of the meeting of December 10 and was mailed out by the author some days after the meeting was held to faculty members in economics and commerce in southern colleges and universities.

At this meeting, a committee composed of Bidgood, Leland, Martin and the writer drew up the detailed plans of the proposed organization. When the plans were completed they were presented to the larger group of representatives. This group accepted the plans by a resolution to the effect that "we do hereby constitute ourselves into an organization to be known as the Southern Association of Instructors in Economics and Business Administration." Immediately after the passage of this resolution, the association proceeded to elect the following officers: president, Walter J. Matherly; vice-president, S. E. Leland; secretary, Mercer G. Evans; and treasurer, T. W. Noel, then Dean of the School of Commerce of the Georgia School of Technology. It was decided to hold the first annual session of the association on February 20–22, 1928, and a tentative program therefor was adopted. No constitution and by-laws, however, were worked out and no decision as to membership fees was reached.

Some of those who participated in the organization of this association felt that the action taken should be presented to the southern members of the American Economic Association who would be in attendance at its 1927 meeting in Washington during the Christmas holidays. When the results of the meeting were sent out to the various colleges and universities of the South, there were others who suggested that a similar method of procedure be followed. Consequently, a meeting was held in Washington on December 29. While there were present at the meeting representatives from most of the institutions in the upper South, there were only a few from the lower South. A brief statement was made at the meeting as to what action had been taken in Atlanta on December 10 and then the matter was thrown open for general discussion. In the arguments pro and con considerable opposition on the part of certain institutions in the upper South developed. Even though no vote was taken, a majority of those present seemed to feel that a regional association was desirable and that those who were responsible for what had occurred at the Atlanta meeting should proceed with the execution of their plans.

But execution of these plans proved to be very difficult. Mercer G. Evans, J. W. Martin, the writer and others kept in touch with each other after the Washington meeting and continued their efforts toward perfecting a permanent organization. It was suggested by several persons that the name of the association be changed from Southern to Southeastern, that more time be given to working out the program and that the first meeting be held in October, 1928. Evans proposed that this meeting be held under the auspices of the Atlanta group of economists. The Atlanta group of economists which had been in existence for some time was an association of faculty members in economics and commerce from Agnes Scott College, Oglethorpe University, Georgia School of Technology and Emory University. This group as early as October, 1927, had gone on record in favor of a southern association. Evans' proposal was presented to this group and on March 17, 1928, it adopted the following resolution:

First, the proposed first meeting of the Southern Association of Instructors in Economics and Business should be held in the fall of the year 1928;

Second, that the president and vice-presidents should be given authority to fix the time, place, and program of the said meeting;

Third, that the tentative nature of the meeting—whether it be a conference on economics and business administration, or an association meeting—shall be left to these officers for determination; but that the permanent nature of the meeting shall be left to the fall assembly for determination;

Fourth, that Dean R. P. Brooks, of the University of Georgia, and Dean Lee Bidgood, of the University of Alabama, should be asked to serve as vice-presidents of the organization in the performance of the above duties.

The action of the Atlanta group provided the impetus necessary to take the next step. The group proceeded without delay to appoint a local committee on arrangements composed of Dean Edgar H. Johnson, Emory University; Dean Thomas W. Noel, Georgia School of Technology; Dean A. S. Libby, Oglethorpe University; and Professor J. M. Wright, Agnes Scott College. Mercer G. Evans, Emory University, acted as secretary of the committee. The original southern Association of Instructors in Economics and Business Administration with its officers disappeared and the Southeastern Economics Conference without officers other than the members of the local committee took its place. Under the auspices of the local committee the first meeting of the Southeastern Economics Conference was held in Atlanta on November 9–10, 1928.[4]

The program of this conference which consisted of 12 principal papers indicates the interests of those who attended and participated in the conference. The subjects with which these papers dealt and the authors thereof were as follows: "The Industrialization of the South" by R. P. Brooks; "Analyzing Ourselves in the South" by Broadus Mitchell; "Decentralization of Industry in the South" by Marcus Whitman; "Some Conditions and Attitudes of Southern Cotton Mill Villagers" by Lois MacDonald; "The Economics of Welfare Work in the Cotton Mill Villages of the South" by Jean Davis; "Cooperation and the Problem of Farm Relief" by E. M. Kayden; "Rural Banking Problems" by J. V. Bowen; "Problems in the Social Control of Banking" by H. L. Severson; "Recent Trends in Southern Taxation" by J. W. Martin; "Electric Power and Water Resources in the South" by Thorndike Saville; "The Economics of Production, Fabrication and Distribution" by Henry M. Payne; and "Contents and Trends of Business School Curricula in the South" by T. W. Noel and C. B. Wray. Each of the men who participated was from the South. All of the papers except two were published in a little volume called *The Industrial South.*

The local committee of the Atlanta group together with the assistance of one adviser from each of six states formulated the program and administered the activities of the Second Annual Session of the Southeastern Economics Conference. The conference was again held in Atlanta, Georgia. The dates were

[4] "Special credit is due to Dean W. J. Matherly, of the University of Florida, and Professor C. A. Curtis, formerly of the University of Florida, and Professor Simeon Leland, formerly of the University of Kentucky, for originating the proposal that such a conference should be held. Professor Matherly is due special credit for his efforts in developing the project. He was originally aided in this by Dean Lee Bidgood, of the University of Alabama, and by Professor Mercer G. Evans, of Emory University, and Professor J. W. Martin, formerly of Emory University."—*The Industrial South:* Proceedings of the First Annual Session of the Southeastern Economics Conference (Banner Press, Emory University, Georgia, 1929), p. 3.

November 15–16, 1929. The subjects which were discussed were taxation and budgetary control of state finances; rural and agricultural problems; labor and scientific management; tariff and tariff legislation; teaching and curriculums in economics and commerce; and a survey of research projects in the South under way, proposed, or to be undertaken. Those who presented the papers were all from the South except one. Due to the lack of funds, no proceedings were published. Each of the sessions of the conference had better attendance than the year before.

Before it adjourned, the conference "unanimously decided to create a formal organization." The following were elected as officers for the academic year 1929–30: Walter J. Matherly, University of Florida, president; O. C. Ault, George Peabody College for Teachers, vice-president; and Mercer G. Evans, Emory University, secretary-treasurer.[5] A committee on constitution and by-laws was appointed consisting of J. W. Scott, Alabama Polytechnic Institute, chairman; C. B. Wray, Mercer University; M. O. Phillips, Washington and Lee University; J. V. Bowen, Mississippi State College; and R. C. Dennison, Georgia School of Technology. Likewise, a program committee was appointed composed of T. R. Snavely, University of Virginia; R. P. Brooks, University of Georgia; J. W. Bell, University of Mississippi; J. M. Wright, Agnes Scott College; C. E. Allred, University of Tennessee; and W. C. Jensen, Clemson College. All of the officers chosen were elected to positions which had not at that time been constitutionally created.

The officers of the conference together with Scott of the constitution and by-laws committee and Brooks and Wright of the program committee, met at the Henry Grady Hotel in Atlanta on March 1, 1930, and voted unanimously to hold the 1930 meeting in Atlanta. It requested Evans, J. M. Wright, T. W. Noel and Edgar H. Johnson to serve as a committee on local arrangements and to fix the dates of the meeting in late October or early November. It decided that all papers presented should be limited to 20 minutes in length; that they should show evidence of original research; that there should be widespread distribution of persons on the program; that there should be a report on current economic progress in each state by a resident thereof; and that a few individuals from business and public life should be invited to discuss current topics such as chain stores, power problems, labor unions and so on. It was suggested that the constitution and by-laws should provide for both individual and institutional memberships, the former carrying annual dues not to exceed $2.00 and the latter, dues not to exceed $10.00; that sustaining or other kinds of memberships at higher rates might be provided; and that there should be three vice-presidents who should function as chairmen of membership, of research and of program respectively.

In compliance with these actions the Third Annual Session of the South-

[5] If the author were asked who more than any other had contributed to the founding and early development of the Southern Economic Association, he would without hesitation name the late Mercer G. Evans. Had he not resigned from Emory University and accepted a position with the United States government in Washington, he would undoubtedly have been elected to the presidency of the association for 1935–36.

eastern Economics Conference was held in Atlanta, Georgia, on November 14–15, 1930. One hundred and sixty-seven persons registered during the session. Of these registrants, 67 were college or university professors, 29 were professionally interested in economics, but attached to business enterprises or governmental bureaus, and 38 had no professional connection of any kind with economic study or research. The program was divided into five parts: regulation of public utilities; problems of agriculture; presidential addresses; industrial revolution in the South; and the chain store movement. A total of 15 papers was presented. Of the 15 persons presenting these papers, three—O. C. Stine, U. S. Bureau of Agricultural Economics; Albert H. Morrill, president of the Kroger Grocery and Baking Company; and Carl N. Schmalz, assistant director, Bureau of Business Research, Harvard University—were from outside the South. Addresses by the presidents of the Southeastern Economics Conference and the Southeastern Political Science Association were delivered at a joint meeting of these associations, since they were both in session in Atlanta at the same time. The entire proceedings of the conference were published.

It was at this 1930 meeting that a formal organization might be said to have come into existence. At the last session, on November 15, 1930, Professor J. W. Scott, chairman of the committee appointed at the 1929 session to draft a constitution and by-laws, presented his report and moved its adoption. The motion was seconded and was carried "unanimously without discussion." It was with the adoption of this constitution that the organization became the Southeastern Economic Association, a name it used until 1935, when at the annual business meeting on November 9, the name was again—and, perhaps, finally—changed to the Southern Economic Association. This original constitution, in addition to setting forth the object of the association and the basis for membership, provided for officers consisting of a president, three vice-presidents and a secretary-treasurer. The three vice-presidents were, respectively, in charge of program, in charge of membership, and in charge of research. An executive committee consisting of the officers and all past presidents retaining their membership was designated. This committee was given the duty of setting the time and place for the annual meeting and of administering the activities of the association between annual meetings.

In anticipation of the adoption of the constitution and by-laws on November 15, 1930, the president of the association had already appointed a committee to nominate officers for the ensuing year. This committee presented its nominations and the association elected the following officers: Lee Bidgood, University of Alabama, president; Tipton R. Snavely, University of Virginia, vice-president in charge of program; O. C. Ault, George Peabody College for Teachers, vice-president in charge of membership; James W. Martin, Emory University, vice-president in charge of research; and Mercer G. Evans, Emory University, secretary-treasurer. At a meeting of the executive committee later in the day, Malcolm H. Bryan of the University of Georgia was appointed editor of publications. He was authorized to consult with the president in selecting two other persons to serve with him as editorial advisers. The executive committee also

approved the publication of the proceedings. These proceedings appeared in 1931.

While the mere adoption of a constitution is hardly sufficient to assure the success of an organization, it proved in the case of this association to mark the beginning of a sound, but not uninterrupted, growth. During the early '30's, the association was quite naturally affected by the depression, but the difficulties of the time were overcome. Annual conferences were held regularly during the '30's; membership grew, not rapidly but satisfactorily; and finances, which had been a very difficult problem at the beginning, were steadily improving. All three of these points deserve some attention before noting some of the specific developments and problems since 1940.

All of the earlier annual conferences had been held in Atlanta and it was not until 1934 that this policy was abandoned. It was argued that Atlanta was centrally located and that it was more accessible to delegates than any other city in the South. But at a meeting of the executive committee held in Birmingham, Alabama, on February 18, 1933, this argument was abandoned and it was decided to recommend to the association that the meeting place be shifted to other Southern cities on the theory that the association would be brought closer to the various areas of the South which it serves and that attendance would be increased. At the sixth annual conference held in Atlanta, November 10–11, 1933, this recommendation was approved. Annual meetings since that time have been held as follows:

November, 1934—Chattanooga, Tennessee
November, 1935—Chapel Hill-Durham, North Carolina
November, 1936—Atlanta, Georgia
November, 1937—Knoxville, Tennessee
November, 1938—Birmingham, Alabama
November, 1939—Charleston, South Carolina
December, 1940—New Orleans, Louisiana
November, 1941—Nashville, Tennessee
February, 1946—Atlanta, Georgia
November, 1946—Birmingham, Alabama
November, 1947—Atlanta, Georgia
November, 1948—Atlanta, Georgia
November, 1949—Knoxville, Tennessee
November, 1950—New Orleans, Louisiana
November, 1951—Knoxville, Tennessee

The membership of the association as of the close of its fiscal year, October 31, is shown in Table 1. Accurate records prior to 1929 are not available; hence the table starts with that date.

It should be noted that, at the 1949 meeting, the association voted to amend the by-laws to provide for student members at an annual rate of $2.00, including subscription to the *Journal*. While potentially this may attract many students, the number of such members reached only seventeen during the first year of its availability and had dropped to fifteen on November 1, 1951.

Table 2 gives a summary picture of the financial condition of the organization since 1933. Records prior to that time are unavailable.

In the earlier years, the financing of the association was exceedingly difficult. The expenses of holding the first two annual conferences were taken care of largely by the Atlanta group of economists. Every bit of money the association could secure through membership fees was used to cover the costs of publishing the proceedings the first and third years. The costs of publishing the proceedings of the third year, which consisted of more than 200 pages, amounted to $600 or $200 more than was originally estimated. As a result of the publication of these

TABLE 1

Membership of the Southern Economic Association for the Fiscal Year Ending October 31, 1930 to 1951

1930	39
1931	73
1932	77
1933	90
1934	126
1935	106
1936	135
1937	173
1938	183
1939	223
1940	223
1941	240
1942	216
1943	167
1944	158
1945	163
1946	248
1947	330
1948	402
1949	447
1950	512
1951	523

proceedings, the association had a deficit of $300 at the end of the year 1930–31. Suggestions were made at the business meeting on October 16 that membership dues be raised to wipe out the deficit, but no action was taken. It was decided that the proceedings for 1930–31 would not be published unless at least $400 were in hand prior to publication. In 1931–32 the deficit continued to hamper the work of the association. But by the close of 1932–33, the indebtedness had been settled due partly to the efforts of R. P. Brooks and Malcolm H. Bryan in getting certain adjustments in printing debts and partly to the efforts of other persons, and the association has, since that time, been in sound financial condition.

Turning now to some of the problems and developments of more recent years, the year 1940 saw two important events in the history of the association. The

first was the revision of the constitution and by-laws. President John B. Woosley, of the University of North Carolina, appointed a committee consisting of himself, T. C. Bigham of the University of Florida, D. C. Hyde of the University of Virginia, and Dean R. P. Brooks of the University of Georgia, chairman, to revise the association's fundamental law. The soundness of this revision is attested to by the fact that only two minor changes in the by-laws and none in the constitution have been made since that time. The new constitution changed the composition of the executive committee from the present officers and all past presidents retaining their membership to the present officers and the three

TABLE 2

Income, Expenditures, Including Amounts Paid to Southern Economic Journal, and Cash on Hand, 1932–33 to 1950–51

YEARS	RECEIPTS	EXPENDITURES*	AMOUNT PAID TO JOURNAL	CASH ON HAND AT END OF YEAR
1932–33	$282.22	$172.92	—	—
1933–34	361.30	233.54	—	—
1934–35	384.26	307.11	—	$77.15
1935–36	463.36	409.36	$287.00	131.15
1936–37	517.00	451.05	333.00	197.10
1937–38	572.00	466.41	376.00	302.69
1938–39	663.00	536.41	431.00	429.28
1939–40	662.00	533.18	434.00	558.10
1940–41	710.00	638.24	466.00	629.86
1941–42	587.00	514.51	384.00	702.35
1942–43	503.25	345.80	326.00	859.80
1943–44	469.52	359.66	292.00	982.18
1944–45	521.97	386.32	336.00	1130.80
1945–46	747.29	671.16	482.00	1220.22
1946–47	859.62	852.89	555.00	1240.59
1947–48	1229.94	1532.60	1208.00†	937.92
1948–49	1702.00	1491.87	1241.00	1148.06
1949–50	1874.50	1861.85	1389.50	1160.71
1950–51	2037.34	1850.69	1509.50	1362.70

* Includes amounts paid to *Journal*.
† Includes $400 special grant.

immediate past presidents. The number of vice-presidents was reduced from three to two and under the new constitution the vice-presidents are designated as first and second, rather than by their earlier titles. The first vice-president was made responsible for the program at the annual meeting and the second vice-president was "charged with the duty of expanding the membership." The names of the officers who have served under this and under the earlier constitution are given in Table 3. The constitution, as revised, consists of six brief articles, entitled in order, Name, Object, Membership, Officers, Meetings, and Amendments.[6]

[6] The Constitution and By-Laws of the Southern Economic Association as adopted in 1940 are published in this *Journal*, Vol. VII, No. 4 (April, 1941), pp. 611–614.

TABLE 3

Officers of the Southern Economic Association and its Predecessor Organizations and their Institution at Time of Election—1927 to 1952

YEARS	PRESIDENT	VICE-PRESIDENTS: PROGRAM	VICE-PRESIDENTS: MEMBERSHIP	VICE-PRESIDENTS: RESEARCH	SECRETARY-TREASURER
1927–28	Walter J. Matherly University of Florida	S. E. Leland, University of Kentucky			Mercer G. Evans, Secretary Emory University T. W. Noel, Treasurer Georgia School of Technology Mercer G. Evans, 1929–30 to 1932–33. Two offices divided in 1933; Evans continued as Secretary and T. L. Howard, T.V.A., was elected Treasurer. D. Clark Hyde, University of Virginia, succeeded Evans in 1934–35 and L. J. Silverman, University of Chattanooga, was elected Treasurer. Two offices recombined in 1935.
1928–29	No officers other than members of Committee on Local Arrangements				
1929–30	Walter J. Matherly University of Florida	O. C. Ault, George Peabody College for Teachers			
1930–31	Lee Bidgood University of Alabama	Tipton R. Snavely University of Virginia	O. C. Ault George Peabody College for Teachers	James W. Martin University of Kentucky	
1931–32	Tipton R. Snavely University of Virginia	Robert H. Tucker Washington and Lee University	Walter J. Matherly University of Florida	James W. Martin University of Kentucky	
1932–33	James B. Trant Louisiana State University	John B. Woosley University of North Carolina	E. Q. Hawk Birmingham-Southern College	James W. Martin University of Kentucky	
1933–34	Robert P. Brooks University of Georgia	Albert S. Keister The Woman's College University of North Carolina	Truman C. Bigham University of Florida	James W. Martin University of Kentucky	
1934–35	Albert S. Keister The Woman's College University of North Carolina	Mercer G. Evans Emory University	A. W. Garner Mississippi State College	T. L. Howard Tennessee Valley Authority	
1935–36	James W. Martin University of Kentucky	Calvin B. Hoover Duke University	M. D. Anderson University of Florida	E. W. Zimmermann University of North Carolina	D. Clark Hyde University of Virginia
1936–37	Calvin B. Hoover Duke University	Truman C. Bigham University of Florida	T. F. Haygood University of Louisville	T. L. Howard Tennessee Valley Authority	D. Clark Hyde University of Virginia
1937–38	Truman C. Bigham University of Florida	Robert H. Tucker Washington and Lee University	A. G. Griffin Furman University	T. L. Howard Tennessee Valley Authority	D. Clark Hyde University of Virginia
1938–39	Robert H. Tucker Washington and Lee University	John B. Woosley University of North Carolina	L. W. Lohr Howard College	Malcolm H. Bryan Federal Reserve Bank of Atlanta	D. Clark Hyde University of Virginia
1939–40	John B. Woosley University of North Carolina	Malcolm H. Bryan Federal Reserve Bank of Atlanta	R. C. Hon Southwestern at Memphis	S. M. Derrick University of South Carolina	D. Clark Hyde University of Virginia

YEARS	PRESIDENT	FIRST VICE-PRESIDENT	SECOND VICE-PRESIDENT	SECRETARY-TREASURER
1940–41	Ralph C. Hon Southwestern at Memphis	Edgar Z. Palmer University of Kentucky	Thurston Walls Mississippi State College	D. Clark Hyde University of Virginia
1941–42	Malcolm H. Bryan Federal Reserve Bank of Atlanta	Edgar Z. Palmer University of Kentucky	Joseph J. Spengler Duke University	James E. Ward Clemson College
1942–43	Edgar Z. Palmer University of Kentucky	D. Clark Hyde University of Virginia	W. J. Phillips Southwestern Louisiana Institute	James E. Ward Clemson College
1943–44	D. Clark Hyde University of Virginia	T. W. Glocker University of Tennessee	E. S. Wallace Millsaps College	James E. Ward Clemson College
1944–45	T. W. Glocker University of Tennessee	Harlan L. McCracken Louisiana State University	Gladys Boone Sweet Briar College	James E. Ward Clemson College
1945–46	Harlan L. McCracken Louisiana State University	Joseph J. Spengler Duke University	H. H. Chapman University of Alabama	James E. Ward Clemson College
1946–47	Joseph J. Spengler Duke University	G. T. Schwenning University of North Carolina	George H. Aull Clemson College	James E. Ward Clemson College
1947–48	G. T. Schwenning University of North Carolina	George H. Aull Clemson College	David McCord Wright University of Virginia	John B. McFerrin University of Florida
1948–49	George H. Aull Clemson College	David McCord Wright University of Virginia	Gordon Siefkin Emory University	John B. McFerrin University of Florida
1949–50	David McCord Wright University of Virginia	James E. Ward George Peabody College for Teachers	M. K. Horne, Jr. University of Mississippi	John B. McFerrin University of Florida
1950–51	James E. Ward George Peabody College for Teachers	George W. Stocking Vanderbilt University	Benjamin U. Ratchford Duke University	John B. McFerrin University of Florida
1951–52	George W. Stocking Vanderbilt University	Benjamin U. Ratchford Duke University	Langston T. Hawley University of Alabama	Howard R. Smith University of Georgia

The second important event in 1940 was the change in the annual convention. The American Economic Association scheduled its 1940 meeting in New Orleans, Louisiana, for December 27–30. The Southern Economic Association was invited by the American Economic Association to hold its annual meeting concurrently in New Orleans. This invitation was unanimously accepted by the executive committee and a joint program was arranged. Reports received after the meeting from various members in attendance were something less than enthusiastic, particularly concerning the degree of participation of the southern group in the overall program. In effect, the complaints were that the Southern Economic Association was overshadowed by the much larger national group. In any event, the program for the 1940 joint meeting indicates only three major papers presented by members of the Southern Economic Association. Two of these were at a regional roundtable that was exclusively southern in participation and the third was the presidential address.

With this experience behind it, the association again resumed its role as a regional group and scheduled its meetings accordingly. The 1941 meeting was held in Nashville, Tennessee,[7] in November and was, to some extent, a program sponsored jointly with the Southern Political Science Association. This is the last convention of the Southern Economic Association that has been held on a joint basis. At the time of the 1941 meeting, the membership of the association had reached 240, finances were in good shape, and the *Journal* was adequately financed and continuing to increase in stature. The executive committee selected Greenville, South Carolina, as the site for the 1942 session. The difficulties associated with the 1940 meeting were largely forgotten and the organization faced the future with confidence.

Then, just as in the early '30's, the depression had threatened the continuity of the association, World War II posed a similar threat. The 1942 meeting was cancelled by the executive committee after a mail poll on the question had been taken. The rationing of gasoline and tires, the crowded condition of public transportation facilities, the relatively large number of members who were away from their institutions in some type of war work, and the request of the Federal Coordinator of Transportation to eliminate all except essential travel were noted as causes for calling off the convention. President Malcolm H. Bryan, however, in his letter to the membership cancelling the meeting, urged all members to retain their affiliation with the association and to support the *Journal* through contributed articles.

Despite this plea, membership immediately began declining, a trend which continued through 1943 and 1944 as annual meetings for these years were not scheduled. Finances of the association were strong and improved, there being no convention expenses, but the support given the *Journal* by the association dwindled along with the reduction in membership. Elections were conducted by mail and while there was the usual rotation through the offices of president, and first and second vice-president, the position of secretary-treasurer was through-

[7] The 1940 meeting had originally been scheduled for Nashville.

out this period held by one man, James E. Ward, at that time of Clemson College. The accomplishments of Professor Ward in holding the association together during these difficult days should be and undoubtedly are gratefully recognized by all members.

As indicated in Table 1, membership dropped to 158 in 1944, and by November 1, 1945, had recovered only to 163. The organization had, however, held together and with the cessation of hostilities in August, 1945, the executive committee the following month decided to hold an annual meeting as soon as possible. It was also decided to postpone the 1945 election of officers until this meeting. Accordingly, arrangements were made at the Biltmore Hotel, Atlanta, Georgia, for a meeting on February 16 and 17, 1946. The program was arranged by H. L. McCracken, first vice-president, and the meeting was well attended. The association decided to return to its annual fall meeting, and the executive committee selected Birmingham as the site of the November, 1946, session.

By this time, the association was recovering rapidly from the effects of the war. Membership had climbed to 248, higher than at any level in its history, and substantial additions to membership were made at the Birmingham meeting. Progress since that time, as reflected both in membership growth (see Table 1) and in financial strength (see Table 2), has been substantial. Membership climbed above the 500 level for the first time in 1950, and registrations at the annual meeting for the first time exceeded 200 at the 1951 session in Knoxville.

Essentially the only financial problem that faced the association during the postwar period was support of the *Southern Economic Journal*. As noted above, the earliest publishing activities of the association consisted of printing the proceedings of the first and third conventions, projects which had resulted in deficits. Since that time, no further attempts have been made to publish proceedings. However, in 1932, Malcolm H. Bryan, then of the University of Georgia, proposed that the association start a southern economic journal to be issued quarterly, rather than spend whatever printing funds it had on the publication of annual proceedings. This proposal was presented at the fifth annual conference on November 11–12, 1932. The association directed the executive committee to proceed with the establishment of the journal, "bringing forth two issues during the current year." The executive committee met on February 18, 1933, and voted to publish "three issues of the quarterly journal during the remainder of this fiscal year and to call the publication the *Southern Economic Journal*." The committee also voted to set up an editorial board composed of an editor and four associate editors. Malcolm H. Bryan, University of Georgia, was designated editor. But due to financial limitations only one issue of the *Journal* came from the press during the fiscal year 1932–33. This issue appeared in October, 1933. During the years 1933–34 and 1934–35 two issues of the *Journal* each year were published.

At the annual business meeting of the association on November 9, 1935, action was taken to place the *Southern Economic Journal* on a sound and permanent basis. At a meeting of the executive committee which was held the night before, Dean D. D. Carroll, University of North Carolina, proposed that the

Journal be made a joint publication of the university which he represented and the Southern Economic Association. He informed the committee that he was authorized by his institution to offer a subsidy to the amount of $1000 per year for the operation and publication of the *Journal* on a joint basis. The committee proceeded to consider the many ramifications of Dean Carroll's proposal and decided to recommend it to the association for final action. The recommendation was duly made and the association unanimously adopted the following:

That the publication of the Southern Economic Journal be entrusted to the University of North Carolina, under the following conditions:

(a) The University of North Carolina is to assume all financial responsibility for the *Journal*. The University will appoint a managing editor who will be charged with the duty of limiting the expenditure of the University upon the *Journal* to one thousand dollars per annum.

(b) The Southern Economic Association is to pay the subscriptions to the *Journal* of the entire paid-up membership of the Association at the rate of two dollars per member per annum.

(c) One editor is to be appointed by the University of North Carolina and one editor is to be appointed by the Southern Economic Association. The editors are to be jointly responsible for the policy of the *Journal* and are to appoint, by joint action, editorial advisers and correspondents.

The first issue of the *Southern Economic Journal* under this joint arrangement appeared in January, 1936. At the beginning there were two editors, one from the association and one from the University of North Carolina, with the managing editor named by the university. In 1939, the editorial board was enlarged to six, three each from the association and the university, and again in 1951, was enlarged to eight. The names of the editors since 1936 are given in Table 4.

While the financial support given the *Journal* by the association, as shown in Table 2, was not large, the grant from the University of North Carolina, together with revenues from advertising and non-member subscribers, was sufficient to cover costs of publication. It was not until the year 1946–47, when the effect of higher costs began to become severe, that the managing editor reported that his expenses had exceeded income. At the 1947 business meeting, the association voted a special grant to the *Journal* of $400; but, despite this, an even larger deficit was reported in 1948.

At the 1948 business meeting, two steps were taken to remedy the situation. First, the association voted to increase annual dues from $3.00 to $4.00, with $3.00 going to the *Journal* for the member's subscription. (Concurrently, subscriptions to the *Journal* by non-members was raised from $3.00 to $4.00.) Second, the association voted to request the University of North Carolina to increase its subsidy from $1000 to $2000 annually. Both of these moves were successful. The university increased its grant, as requested, first on a year to year basis, but later on a continuing basis. The increase in dues did not, as was feared, drive away members. Financial support of the *Journal* by the association increased substantially, and the 1951 report of the managing editor showed expenses being comfortably—but not liberally—covered by income. (The financial history of the *Journal* since 1935–36 is given in Table 5.)

TABLE 4

Editors of the Southern Economic Journal since January, 1936, with Dates of Service and Institutions at Time of Appointment

DESIGNATED BY THE SOUTHERN ECONOMIC ASSOCIATION	DESIGNATED BY THE UNIVERSITY OF NORTH CAROLINA
Malcolm H. Bryan Federal Reserve Bank of Atlanta July 1936–April 1937	Albert S. Keister Woman's College University of North Carolina July 1936–April 1939. Jan. 1940–
Harlan L. McCracken Louisiana State University April 1937–Nov. 1941	E. M. Bernstein University of North Carolina July 1939–Jan. 1941
Truman C. Bigham University of Florida Jan. 1940–Mar. 1942 Jan. 1947–Nov. 1950	M. C. Leager North Carolina State College University of North Carolina Jan. 1940–Dec. 1948
E. Z. Palmer University of Kentucky Jan. 1940–July 1940	H. D. Wolf University of North Carolina Jan. 1941–
R. P. Brooks University of Georgia July 1940–Jan. 1947	F. E. McVay North Carolina State College University of North Carolina Jan. 1949–
B. U. Ratchford Duke University Nov. 1941–Sept. 1945	Clarence Philbrook University of North Carolina Nov. 1951—
Earle L. Rauber Alabama Polytechnic Institute Mar. 1942–Feb. 1946 Federal Reserve Bank of Atlanta Jan. 1947–Nov. 1949	*Managing Editor*
John V. Van Sickle Vanderbilt University Sept. 1945–Jan. 1947	G. T. Schwenning University of North Carolina Jan. 1936–Jan. 1943 Jan. 1947–
E. H. Anderson University of Alabama Feb. 1946–Nov. 1948	D. H. Buchanan University of North Carolina Associate Managing Editor Oct. 1941–Jan. 1943 Managing Editor Jan. 1943–April 1945
George W. Stocking Vanderbilt University Nov. 1948–Nov. 1951	D. D. Carroll University of North Carolina Acting Managing Editor April 1945–Jan. 1947
L. K. Brandt University of Mississippi Nov. 1949–	

TABLE 4—*Continued*

DESIGNATED BY THE SOUTHERN ECONOMIC ASSOCIATION	DESIGNATED BY THE UNIVERSITY OF NORTH CAROLINA
Ernst W. Swanson Emory University Nov. 1950–Jan. 1952	Dates in all cases are either when appointment was made or the first issue when the individual's name was listed as an editor.
Rutledge Vining University of Virginia Nov. 1951–	It should be especially noted that Albert S. Keister has served as an editor on all issues of the *Journal* since 1936 except three.
C. H. Donovan University of Florida Nov. 1951–	
Edward C. Simmons Duke University Jan. 1952–	

The Southern Economic Association has made outstanding progress during its 25 years of existence. The vigor with which it rebounded following the war years attests to the inherent strength of the organization developed during its earlier years. It has been exceptionally fortunate in its leadership. Its officers deserve much credit. Basically, however, the association has prospered because its individual members have supported it. This support has come presumably because of the belief that a regional organization of this type makes a real contribution to the professional life of its members. The association, in soliciting this support, has had two tangible things to offer, namely, the *Southern Economic Journal* and its annual meetings.

When the regular annual meetings were interrupted during the war, as noted above, membership declined materially. With their resumption, membership climbed immediately. The meetings have offered a forum for the discussion of a wide variety of economic questions. The annual programs from the beginning have given great emphasis to the economic problems of the South. Several of the programs have dealt almost, if not exclusively, with southern matters. Indeed, it was not until the 1951 program that southern problems might be said to have taken a back seat, with none of the papers dealing specifically with topics limited to this area, but with one round table devoted to the theoretical analysis of regional economics. Thus both papers dealing with the South and those not directly related to the region have found their place in the annual meetings and have appealed to the broad interests of the group in attendance.

The *Southern Economic Journal* has, without question, been one of the major factors contributing to the continued development of the association. In the January, 1936, issue of the *Journal*, which was the first published under the joint sponsorship of the association and the University of North Carolina, the president of the association, James W. Martin of the University of Kentucky, and the president of the University of North Carolina, Frank P. Graham, in a joint announcement, stated in part:

Both parties to the present arrangement sincerely hope that the *Journal* in its new form will stimulate thinking and writing by social scientists generally and by economists particularly; that Southern problems will receive major though not exclusive attention in its pages; and that it will in the years to come make a significant contribution to a wider understanding of the South's difficulties, an understanding that must precede and be the basis of any intelligent attempts at amelioration and advancement.

TABLE 5

Income, Expenditures, and Cash on Hand, Southern Economic Journal, 1935–36 to 1950–51

YEARS	CASH BALANCE AND RECEIPTS	EXPENDITURES	BALANCE END OF YEAR*
1935–36	$1,568.04	$1,456.13	$111.13†
1936–37	2,038.88	1,700.63	338.25
1937–38	2,599.20	1,882.02	717.18
1938–39	3,200.43	2,328.08	872.35
1939–40	3,306.85	2,430.93	875.92
1940–41	3,922.66	2,667.23	1,255.43
1941–42	3,920.43	2,537.80	1,382.63
1942–43	3,866.88	2,254.92	1,611.96
1943–44	3,997.71	2,180.06	1,817.15
1944–45	4,660.14	2,717.36	1,942.78
1945–46	5,072.37	2,487.44	2,584.93
1946–47	5,709.43	3,983.06	1,726.37
1947–48	6,057.55	4,773.66	1,283.89
1948–49	8,612.01	6,106.37	2,505.64
1949–50	9,132.97	7,626.45	1,506.52
1950–51	8,853.97	7,023.98	1,829.99‡

* Includes bills receivable for several years.

† No cash balance at the beginning of 1935–36.

‡ Includes University of North Carolina advance of $500 on 1951–52 annual grant, making the actual balance $1,329.99.

The editors of the *Journal* in the same issue, in stating the functions of the *Journal*, said:

> The functions of the *Journal* may then be summarized as follows: It does not appear as the protagonist of either an older or a newer sectionalism. Without prejudice to broader interests, it is designed simply and modestly to assist Southern economists in a more telling participation in affairs with which they are necessarily engaged, to publish authoritative and scholarly articles which, because of limited territorial significance or special emphasis, do not find appropriate place in national periodicals, and frankly, to encourage among Southern economists the investigation that is increasingly requisite to the adjustment of the South's difficulties. The editors realize that much within this field of interest is being produced outside the South, and it is their particular desire that economists and others, wherever located, shall use these pages.[8]

Both of these statements emphasized that the *Journal* was to give particular attention to southern problems, but was not to be oblivious to articles of wider interest. No charge can be made that the *Journal* has been unduly regional in its coverage. An analysis of the titles of its articles since January, 1936, reveals

[8] This *Journal*, Vol. II, No. 3 (Jan. 1936).

that only slightly more than one-third have been concerned with strictly or largely southern questions. The *Southern Economic Journal* has, like other standard publications in the field, given space to articles of interest to its members as economists, not merely as southern economists. It has, however, retained a distinct southern flavor through its reports of events of major economic significance in the individual southern states and through its personnel notes section covering all southern educational institutions. It has built up a circulation which, as of November 1, 1951, amounted to 914 and had subscribers in 40 states and 21 foreign countries.

This growth has not come about merely by chance. The *Journal* has been blessed with an able and effective board of editors. The policy of the association designating one-half of the editors and the University of North Carolina the other half has worked out splendidly. Both the association and the university have chosen wisely. But as is true in most such undertakings, one man has had to assume responsibility for seeing to it that the *Journal* actually appeared. This one man has been the *Journal's* managing editor, who, except for some four years, during and immediately following the war, has been Dr. G. T. Schwenning of the University of North Carolina.[9] No one individual should of course receive credit for the accomplishments of the *Journal*. But of the individuals who have been responsible for its development, certainly few would question the statement that Dr. Schwenning's contribution has been pre-eminent.[10]

In conclusion, we believe that the statement made in the final paragraph of "The History of the Southern Economic Association, 1927–1939"[11] is still appropriate.

> The Southern Economic Association, together with the *Journal* which it has sponsored and developed through the cooperation of the University of North Carolina, "has fully justified the faith of its founders." While the association was started at the height of the prosperous twenties and while it was confronted with serious financial and other difficulties in the depressed thirties, it has survived; it has grown in stature; it has greatly increased the number of its members; it has extended its influence; it has reached adulthood. It has not functioned merely as another organization; it has served as a positive agency to bring together southern economists, to unite them in the pursuit of their common professional interests, to provide them with an annual forum for the discussion of southwide economic problems and policies and to supply them with a clearing house through which to disseminate the results of their thinking and research. While it is regional in its membership, its interests, as well as its annual programs, extend beyond the region which it serves and encompass the nation.

[9] Dr. Schwenning was ably relieved first by Dr. D. H. Buchanan and later by Dean D. D. Carroll.

[10] See the opening page of the January, 1943, issue of this *Journal* (Vol. IX, No. 3) for the tribute paid Dr. Schwenning upon his resignation at that time.

[11] This *Journal*, Vol. VII, No. 2 (Oct. 1940), p. 240.

CONGRESS STUDIES FISCAL AND MONETARY POLICIES[1]

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I

It is traditional in the United States, as in many other countries, that extensive banking troubles bring about a legislative re-examination of the organization and functions of the banking system. In fact, a major crisis is usually required to precipitate such an examination. The most recent crisis occurred at the top level of our banking system and brought it into conflict with a department of the Federal Government.

Although the conflict had long been in the making, it came into the open in August, 1950. The Federal Reserve System felt that it could no longer forego the use of its principal weapon to control credit—open market operations—in order to support the prices of government bonds at artificially low rates of interest. The Treasury insisted upon a "stable market" for its securities in the face of the great uncertainties created by the Korean war. The conflict deepened in intensity and the two agencies eventually reached a virtual deadlock. Finally, under considerable pressure from the President and the Congress, the two agencies reached an "accord" or *modus vivendi* early in March, 1951. Shortly afterward, Chairman O'Mahoney of the Joint Committee on the Economic Report appointed a five-man Subcommittee on General Credit Control and Debt Management, headed by Congressman Wright Patman, to investigate the whole problem and make recommendations for avoiding similar difficulties in the future.

The Subcommittee organized a small staff, headed by Dr. Henry C. Murphy, long a key man on the staff of the Treasury Department.[2] Elaborate questionnaires were prepared covering theoretical aspects of fiscal, monetary, and credit policies and practical aspects of central and commercial banking, the market for Government bonds, and many related matters. In fact, they were so broad in

[1] This is a review article covering the publications of the Sub-committee on General Credit Control and Debt Management of the Joint Committee on the Economic Report. The Sub-committee was headed by Congressman Wright Patman and included also Senators Paul H. Douglas and Ralph E. Flanders and Congressmen Richard Bolling and Jesse P. Wolcott. The publications, all printed by the Government Printing Office, Washington, D. C., 1952, are: *Monetary Policy and the Management of the Public Debt—Their Role in Achieving Price Stability and High-Level Employment* (cited hereafter as *Compendium*) 2 parts, pp. 1302; *Hearings*, pp. 993; and *Report*, pp. 80. Many of the major topics studied by this Sub-committee were covered in 1949–50 by the Sub-committee on Monetary, Credit, and Fiscal Policies of which Senator Douglas was Chairman. Generally, the recommendations of the earlier Sub-Committee were not sympathetically received by this present Subcommittee.

[2] Dr. Murphy is at present on the staff of the International Monetary Fund, but for a long time, until about 1947, he was influential in shaping policy in the Treasury Department. He is the author of *The National Debt in War and Transition*, New York, 1951.

scope and covered so many questions of minor importance that they often detracted attention from the major issues. These questionnaires were sent to the Treasury, The Board of Governors of the Federal Reserve System, Federal Reserve Banks, The Council of Economic Advisers, The Comptroller of the Currency, The Federal Deposit Insurance Corporation, State Bank Supervisors, commercial bankers, life insurance company executives, dealers in United States Government securities, and a selected list of academic and business economists. The replies to these questionnaires were received and studied by the staff of the Subcommittee. Replies from the agencies primarily concerned were printed in full. Summaries of the other replies were prepared and printed, together with excerpts.

In March, 1952 the Subcommittee held hearings over a period of 16 days and received testimony from many of those who had prepared answers to the questionnaires. In June, 1952 the Subcommittee released its *Report* giving its conclusions and recommendations.

II

The four volumes published by this Subcommittee, aggregating almost 2,400 pages, constitute a most valuable source book of materials, analyses, and opinions on credit control and debt management. Since the individual papers came from many different sources, they vary widely in quality and reliability. The Chairman cautioned the reader that "... the point of view represented by many of the respondents is that of institutio l lenders ..."; he might well have added that the point of view of many others was that of government officials and employees.

It is impossible to give, in brief compass, an adequate idea of the great range of materials included in these documents. Each major topic is discussed at several different places as the different parties answered the questionnaires or testified at the hearings. The major topics discussed, roughly in the order of the space devoted to each, were: 1) The relative effectiveness of monetary controls and fiscal policy as means of achieving economic stability. 2) The relationship between the Federal Government (especially the Treasury Department) and the Federal Reserve System. 3) The internal organization and operation of the Federal Reserve System, with particular reference to the machinery for the determination of monetary and credit policies. 4) Selective credit controls and credit rationing other than through interest rates. 5) The purpose and functions of bank reserves and proposed new forms of bank reserves. 6) The availability of credit for small business. 7) Federal and state policies in chartering new banks. 8) Deposit insurance. 9) The use of bank examinations as a means of controlling credit. 10) The gold standard.

For the academic student, perhaps the greatest value of these materials lies in the understanding and appreciation of policy application which they afford. Here we have our most competent administrators, with the aid of their research staffs, tracing the development of the different theories and techniques; evaluating the characteristics, potentialities, and limitations of those techniques; and, finally, giving a wealth of information and opinions on the actual results of the application of those theories and techniques.

III

The heart of the whole study lists in the double-barrelled problem of: (a) the effectiveness of monetary and credit controls as compared with fiscal policy in accomplishing economic stability; and (b) the relative powers of the Treasury Department and the Federal Reserve System in shaping monetary and credit policies. In terms of a comparison more readily understandable to the academic mind, the Secretary of the Treasury and the Chairman of the Board of Governors were taking a competitive examination to determine which should have the ultimate power to set monetary policy.[3] The examination covered the fields of monetary, credit, and fiscal policy and included both theory and practice. The questionnaires constituted their written examinations. The Secretary had 44 questions covering about four printed pages; his answers covered some 200 pages. The Chairman had 59 questions covering seven pages and his answers ran to over 400 pages. Some exams![4]

The oral examinations of the candidates took place during the *Hearings*. Here both the value and the sprightliness of the proceedings were enhanced by the leading part taken by Senator (formerly Professor) Paul H. Douglas. Rarely has a Cabinet Member taken such a grilling as Secretary Snyder took from the hands of Senator Douglas. The trembling Ph.D. candidate, looking forward to his "prelims", might well read those passages as an example of the most extreme punishment which might be expected from his doctoral committee. A time or two, in particularly difficult spots, the Secretary fell back on his written reply and refused to explain, extend, or amplify the written answers.[5]

With respect to changes in the interest rate, the keynote of the Treasury's analysis was "prudence," "caution," "great caution," and "extreme caution." On the one hand, the Treasury held that higher interest rates were of no value in restraining inflation. In March, 1946 the Secretary wrote, "I should like to state very clearly, therefore, that I see no way in which increasing short-term interest rates would help in combating inflation."[6] On the other hand, he held that sharp increases in interest rates might greatly unsettle the Government bond market and cause collapse and depression in the business world. "It is clear that there can be a whole chain of effects stemming from a restrictive credit policy; this may cause such a policy to be *too* (italics in original) effective—to stimulate forces which can bring on a business recession. For this reason, credit restrictions, when needed, should be undertaken with great caution and delicacy."[7] In

[3] One weakness of the analogy is that the Subcommittee conducting the examination did not have the power to employ the successful candidate; it could only make general recommendations which might or might not be picked up by some committee which, in turn, could only make recommendations to Congress.

[4] The candidates had some part in preparing the questions and had considerable "outside help" on the answers. The Secretary had 25 staff members working on the questions for several months and engaged 14 outside consultants. The Chairman used a somewhat larger number of staff members and engaged ten outside consultants at a total cost of $6,655. *Hearings*, pp. 70–72; 140–141.

[5] In a few such places the reader momentarily expects to have the Secretary reply: "I refuse to answer on the ground that my answer might tend to entangle me."

[6] *Compendium*, p. 56. [7] *Ibid.*, p. 83.

brief, it is probably fair to say that the Treasury believes that small changes in interest rates are ineffective and large ones are too dangerous; no middle ground is recognized. Also, there seems to be implicit in Treasury reasoning that low interest rates are desirable, *per se*, at all times and places and that if and when it becomes necessary to restrict credit, it can be done without raising interest rates—or at least interest rates generally so that they will apply to Government securities.

Throughout, the Treasury's principal concern is for a "stable market" for Government bonds. The Secretary gave his concept of a stable market as follows:

> I consider the term "stable market" in this context to mean a market in which prices and yields fluctuate within a moderate range over a considerable period, but without exhibiting any pronounced upward or downward trend. I do not consider it to mean a "pegged market" in which fluctuations are prevented by means of fairly rigid support operations on the part of the Federal Reserve.
>
> The 5-year period from the Japanese surrender to the beginning of the Korean conflict illustrates fairly well the Treasury's idea of a stable long-term market.[8]

He does not explain how such a "stable market" is to be realized without "fairly rigid support operations." Throughout the five-year period he cites as illustrating his ideal, he consistently opposed removal of Federal Reserve supports for the long-term market.

The "caution" which the Treasury urged throughout the postwar period had to do with action to restrict credit or curb inflation; with regard to action to support bond prices the Treasury was "aggressive" and urged resolute action. All the while, the Treasury paid lip service to the need to curb inflation, but most of its actions were in the opposite direction. At the end of World War II, the two dangers of inflation and depression were recognized, but the need to facilitate a quick reconversion and the danger of depression and unemployment definitely precluded any tightening of credit. By early 1947 reconversion had been accomplished and the Treasury grudgingly agreed that it might be possible to "move in the direction of higher *short-term* (italics supplied) interest rates."[9] In November of that year, however, there was "a decline in the demand for Government bonds" and the Treasury "pursued an aggressive policy in the purchase of longer-term, higher-yielding bonds"[10] and was aggrieved when the Federal Reserve, in December, lowered the pegs for long-term bonds. Both the Treasury and the Federal Reserve engaged in support operations in 1948. Throughout its analysis of this period, the Treasury makes no mention whatever of the extent of the inflation which was raging, despite its many professions of concern. It is evident that a drop of one point in bond prices caused the Treasury much more concern than a jump of 10 points in the price index.

Early in 1949 short term interest rates were lowered but this was reversed early in 1950. "The Treasury was not sure that this was desirable so soon and felt that caution was called for. It might be unwise to clamp down immediately upon the upturn in business which had barely started." After the outbreak in

[8] *Ibid.*, p. 99. [9] *Ibid.*, p. 61. [10] *Ibid.*, p. 63.

Korea, "stability in the Government bond market was of paramount importance."[11] In other words, between fears of depression, predictions of unemployment, signs of recession, and danger of war, the Treasury could never find an opportune time for tightening credit.

The Treasury's proposal for solving its conflict of powers with the Federal Reserve was "The creation of a small consultative and discussion group . . . to consist of the Secretary of the Treasury, the Chairman of the Board of Governors, the Director of the Budget, the Chairman of the Council of Economic Advisers to the President, and the Chairman of the Securities and Exchange Commission . . ."[12] This group would "act as a top-level advisory group to the President on broad questions of monetary and fiscal policy."

In the exposition of its case, the Federal Reserve had a much more difficult, complex, and delicate task than the Treasury. The Treasury could show that a sharp tightening of credit would produce an immediate and substantial drop in bond prices. The Federal Reserve, on the other hand, had to try to show that a moderate tightening of credit would, over a period of time, curb inflation and over-expansion without producing panic or disorderly security markets. It did this by showing how tighter credit conditions influence business decisions and the actions of lenders. In the process of doing this it gave a very good description of the evolution of the Federal Reserve System, the development of its techniques of credit control, and an evaluation of their effectiveness. It noted, also, the effect of capital losses as a deterrent of the sale of government bonds by financial institutions.[13] In passing, it noted the limitations of fiscal policy and insisted that fiscal policy alone cannot achieve stabilization.[14]

In particular, the Federal Reserve case pointed out that a moderate tightening of credit could have substantial effects in curbing inflation if it were accompanied by uncertainty as to the actions which might follow. This is, of course, an accepted feature of central bank techniques and is necessary for effective operations. It is, however, the opposite of the conditions which prevail when bond prices are pegged or when there is a "stable market" in the Treasury sense. Here, then, is the crux of much of the difference between the Treasury and the Federal Reserve. The Treasury wants certainty so that there will be "confidence" in Treasury securities. The Federal Reserve wants uncertainty so that mild and moderate actions will produce substantial but orderly effects because the market anticipates that more stringent measures may follow if the initial moves are not effective. This difference is basic and it is doubtful if the two positions can be successfully reconciled.

The Federal Reserve had an equally complex and delicate task in trying to explain its position in the Federal Government and what its relationship is, and should be, to the President and the Treasury Department. On the one hand, it was not willing to admit, and could not admit, that it was on the same basis as one of the regular departments of the Government, headed by a member of the Cabinet and subject to fairly close control by the President. On the other hand,

[11] *Ibid.*, pp. 65–67. [12] *Ibid.*, p. 31. [13] *Ibid.*, pp. 275 ff.
[14] *Ibid.*, pp. 235–236.

it could not reasonably contend that it is completely independent of the Government, free to set any policy it might choose, regardless of the problems faced by the executive branch of the Government and the policies laid down by the President.

By its very nature, of course, a central bank is an unique institution and should occupy a position somewhere between these two extremes. Further, that position varies with circumstances. In time of war or other major emergency, the central bank must surrender some of its independence in order to facilitate treasury financing; in more normal times it should have more freedom and independence. But such a position does not fit neatly into an organization chart nor can it be accurately described by a rigid formula or statement.

The need of the System for some measure of independence and the undesirability of subordinating Federal Reserve policy to Treasury policy was well put by the President of the San Francisco Federal Reserve Bank in his discussion of pegging operations as follows:

> The unwillingness of Congress, both to give the System more than limited authority to buy Government securities directly from the Treasury and to allow the Treasury to issue currency with no reserve whatever in lieu of borrowing, reflects its recognition of the undesirability of insulating Government borrowing from the test of the market, except under temporary, emergency conditions. Yet to peg the Government security market short circuits market influence in essentially the same fashion.[15]

Federal Reserve spokesmen were not at all enthusiastic about Secretary Snyder's proposal for a consultative or discussion group for monetary policy, although for obvious reasons they did not overtly oppose it. For the same reasons they did not specifically endorse Senator Douglas' proposal, first advanced in 1949, for a Congressional mandate which would give the Federal Reserve System the power and responsibility for determining credit policies and require the Treasury to conform to such policy in its financial operations. As noted below, Senator Douglas advocated this proposal very strongly and believed that it was the key in the whole problem.

In all of the discussion, two important points were inadequately presented. The first had to do with the relationship between interest rates and the availability of bank reserves and bank credit. Treasury spokesmen and some of the other participants often stated that the important factor in curbing inflation was to reduce the availability of bank credit and held that in order to do that it was not necessary to raise interest rates.[16] The matter was often discussed, but nowhere was there a clear, straight-forward explanation of the heart of the problem. Under inflationary conditions, the immediate effect of any move to reduce the supply of credit will be to raise interest rates. When the Reserve Banks are pegging the prices of Government securities and when market rates of interest rise to the level of the yields of the securities being pegged, the commercial banks have an unlimited supply of reserve funds at their command.

[15] *Ibid.*, p. 645.

[16] In fact, some of the discussion implied that to raise interest rates is a mortal sin, to be opposed by all the forces of righteousness at all times.

When that happens there can be no further reduction in the availability of credit until the market yields on the pegged Government securities are raised; i.e., until the pegs are lowered. There are two possible exceptions. First, selective credit controls might reduce the availability of credit for certain specific uses. Second, measures to insulate Government securities from the market generally, if successful, might permit a tightening of credit generally without affecting the price of such securities. Few of the participants, however, believed that such measures were desirable or likely to be effective.

Discussion of the second major point was omitted because no leading questions were asked regarding it; how and by whom are the debt-management policies of the Treasury determined? The Federal Reserve was required to explain and defend at length every phase of the determination of credit policies—who make the decisions, the theories they follow, the information they rely upon, the goals they aim at, and the results accomplished. In contrast, there was almost no information as to how policy-making in the Treasury is carried out.

In some of the discussion there were implications that the Reserve System, in presuming to oppose Treasury policies, was opposing policies established and/or approved by Congress. In actuality, however, the Treasury has almost, if not entirely, as much latitude in shaping debt-management policies as the Reserve System has in determining credit policies. Congress gives the Treasury a broad grant of power to manage the debt, allowing it to decide, within broad limits, the types of securities to be issued, maturities, interest rates, and other features. This is necessary and inevitable, since the Treasury must face the possibility of rapidly-changing market conditions. But along with this power and discretion should go responsibility. The Treasury is not required, as is the Federal Reserve, to publish a statement giving the reasons and purposes of each policy decision. A critical examination of Treasury policy-making would have added greatly to the value of this investigation.

IV

The next major topic which received extensive treatment was the internal organization and functioning of the Federal Reserve System, with special emphasis on its machinery for the determination of credit policy. Discussion centered mainly around two points: (1) the ownership of the stock of Federal Reserve banks, and the election of their directors, by member banks; and (2) the division of credit-control powers between the Open Market Committee and the Board of Governors. Federal Reserve spokesmen vigorously defended present arrangements, in both cases, contending that they have worked satisfactorily and have specific advantages. Their opponents readily agreed that results have been satisfactory thus far.

The chief criticism of member-bank ownership of Federal Reserve stock was that it might give private interests too large a voice in the determination of credit policy. This seemed to be a general fear and no evidence was offered to support it.[17] Federal Reserve spokesmen denied that there was any basis for this

[17] A minor criticism was that dividends on Federal Reserve stock issued before 1941 are exempt from the federal income tax.

fear and went on to claim that this arrangement made the member banks feel more a part of the System and thus enlisted "grass-roots" support for the System. They pointed out also that officials of Reserve banks depended heavily on the information and opinions supplied by the directors to keep informed of business conditions in their districts and the directors, in turn, were most useful in keeping their fellow bankers informed about Federal Reserve policies and practices. Certainly in a country as large and diverse as this one, such channels for two-way communication should be highly useful.

The principal criticism of the division of power between the Open Market Committee and the Board of Governors was that it might lead to a deadlock or to divergent policies in the control of credit; that the different powers to control credit are so closely related and interdependent that they should be exercised by one body. The arguments advanced by Federal Reserve spokesmen in defense of present arrangements were much the same as those given above—that participation of the Reserve banks on the Open Market Committee made them more interested in the System as a whole and gave them some voice in shaping the policies which they have to administer. Also, The Board of Governors profits greatly from the information and advice of members from different sections of the country.

Opponents of the present arrangements argued that they are illogical and obsolete; that the System is much more centralized now than when it was established and that there is no longer any valid arguments for a regional central banking system. They would either have the Government buy the stock of the Reserve banks or have the banks retire the stock from their earnings. Directors would then be appointed by the Board of Governors. They also advocate abolishing the Open Market Committee and giving the Board the power to manage open market operations. Implicit in their arguments was the belief that all the information and wisdom needed to operate a central bank can be found in Washington.

V

A number of other important topics were discussed at some length in the investigation; here it is possible to do no more than mention them briefly. Nearly all participants were asked to evaluate selective credit controls as represented by Regulations U, W, and X. A large majority held that they are useful under certain conditions but should not be used except when the need is real and pressing. Almost all who expressed opinions on the point agreed that they have been fairly and efficiently administered. Federal Reserve spokesmen, who administer these controls, were frank to state that they did not like their assignment but admitted that such controls are necessary under certain conditions.

The Voluntary Credit Restraint Program came under especially heavy criticism, much of it bearing the earmarks of political origin. It was evident that some political figures were jealous and suspicious of private interests which banded together voluntarily to try to restrain inflation through measures above and beyond those prescribed by law. Representatives of the Federal Reserve

and of life insurance companies defended the Program vigorously, although it was apparent that they did not relish their task and that they were acting largely to ward off compulsory measures. The story of the development of the Program will illustrate, first, the limitations and weaknesses of direct, qualitative controls and, second, the difficulties of mobilizing and maintaining support for a voluntary program. The political criticism foreshadowed the summary action taken by President Truman near the end of the Hearings in withdrawing state and local government borrowing from the jurisdiction of the Program. This body blow to its prestige and authority caused the Program to collapse and a few weeks later it was formally ended.

Several new forms of bank reserves were discussed. One is designed partially to insulate Government securities from market conditions by immobilizing a large amount of those securities in the banks. It would require banks to hold, over and above their regular reserves, certain prescribed amounts of Government securities as reserves against deposits. Another proposal, designed primarily to curb inflation, would require banks to hold very high reserves against *increases* in deposits after a specified date. Still another proposal would impose reserve requirements which would vary according to the composition of the *assets* of the bank. Two major changes in existing reserve requirements were considered at some length: the first would abolish differences in reserve requirements based on the location of banks; the other would require non-member banks to maintain the same reserve as member banks.

None of the proposed changes in the form of bank reserves enlisted general support. Federal Reserve spokesmen were skeptical of their effectiveness and thought they would be difficult to administer. State bank supervisors and commercial bankers were strongly opposed to them. There was considerable support for the two proposed changes in present reserve requirements (i.e., to equalize reserve requirements for member and non-member banks and to abolish differences faced on the location of banks), but state bank supervisors and representatives of non-member banks opposed them vigorously. With these latter the touchstone was usually whether the change would contribute to the maintenance of our dual banking system.[18]

The availability of credit for small business received considerable attention, especially from the presidents of the 12 Federal Reserve Banks. All who discussed the subject agreed that it was difficult to deal with the topic for several reasons, one of the principal ones being that there is no generally accepted or precise definition of small business and that any useful definition would have to vary greatly from industry to industry. Because of these difficulties and the lack of any substantial amount of data, most of the opinions were general and somewhat indefinite. Subject to these reservations, however, there seemed to be a concensus

[18] At one point the banking supervisor from California stated: "This dual-banking system must be maintained at all costs. If not so maintained, we must revert solely to a State-chartered bank system, rather than solely to a national system. It is essential that we maintain our States' rights and immediately stop all further encroachments by the Federal Government." *Compendium*, p. 983.

that credit is more readily available to small business today than at any time in the recent past.

Other points made by the 12 Federal Reserve presidents jointly or by one or more of them separately were: 1. Quality of management has been more important in the success or failure of small business than has the lack of capital. 2. More favorable tax treatment of small business would be more important than special credit facilities. 3. Any lack of credit for small business is a local and specific situation and not a general, national condition. Further, "the establishment of additional governmental facilities on the national level to provide capital or credit, or guaranties, for small business would not be necessary or desirable" for the following reasons:

(a) "Such agencies are unlikely to have the intimate knowledge of all aspects of the affairs of individual businesses that is needed . . ."

(b) "Those making the final decisions bear no risk and are not penalized for their errors of judgment."

(c) "There is danger of the infiltration of special influence and corrupt practices which tend to destroy fair and impartial administration."

(d) Generous Government aid would "lead to the creation and financing of more new businesses than the economy could support, and thus produce increasingly uneconomic competition as well as increased failures among small businesses."[19]

They did "favor the encouragement of privately managed regional facilities designed to channel the funds of local investors into concerns which have a definable economic need for added capital."[20]

VI

The final report of the Subcommittee was, as a whole, almost a complete compromise. On balance, the recommendations in the majority report were tipped somewhat in favor of the Treasury and against the Federal Reserve. It was signed by only three of the five members and Senator Flanders, one of the signers, took exception to a number of the recommendations. Senator Douglas wrote a vigorous dissenting minority report in which he was joined by Representative Wolcott.

The more important recommendations of the majority might be summarized as follows:

1) Both fiscal and monetary policies should be used in achieving stabilization, but monetary policy must be used "with caution." Senator Flanders took exception by noting the need for boldness in using monetary policy. 2) Selective credit controls should be used "with especial caution" and "only when thoroughly justified by special circumstances." 3) The present degree of independence of the Federal Reserve System is best suited to present conditions and the two "should continue to endeavor to find by mutual discussion the solutions most in the public interest for their common problems, with final appeal to Congress." It was recommended that the advisory council suggested by Secretary Snyder should be set up on an experimental basis by executive order. 4) No change in the

[19] *Ibid.*, p. 795. [20] *Ibid.*, p. 788.

organization of the Federal Reserve System was recommended, but it was recommended that the terms of the Governors should be reduced to six years and they should be eligible for reappointment. The Subcommittee did note "with concern the complete absence of any representation of labor on the directorates of the Federal Reserve banks . . ." and recommended that "the Board of Governors give consideration to including representatives of labor among those whom it considers eligible for appointment as class C directors." Senator Flanders objected, stating that "class C directors should represent the broad public interest and to this end well-qualified representatives of labor should be eligible," but he opposed "any requirement which would tend to make these directorships partisan by parceling them out to members of special-interest groups, whether business, agriculture, or labor." This action of the Subcommittee was in striking contrast with another of its recommendations that "the present geographical and other qualifications for appointment to membership on the Board of Governors be eliminated and the appointments be left to the full discretion of the President and the Senate." 5) Non-member banks should be required to maintain the same reserves as member banks and should have the same access to Federal Reserve Banks. Further study of the proposed new forms of reserves was recommended. 6) We should maintain our present form of the gold standard but should not attempt to restore domestic convertibility.[21]

Senator Douglas, joined by Representative Wolcott, objected to some parts of the analysis in the majority report, particularly the emphasis on external as contrasted to internal factors as the cause of inflation after the Korean outbreak and the implication "that monetary policy is relatively unimportant in the short-run." As a policy issue, he condemned the principle of a protected or "insulated" bond market, stating that "In practice, the principle of insulation simply means that whenever the public is unwilling to surrender its money voluntarily on the terms and conditions that the Government offers, the 'insulation' comes to consist merely in the creation of new and additional supplies of money to take the Government's securities off the market."[22]

Senator Douglas agreed that certain of the majority's recommendations, such as those dealing with reserves and the proposed advisory council, represent "desirable but minor changes" but held that they were "dangerous in the absence of a clear mandate making the Board of Governors fully responsible for the monetary policies it pursues and in the absence of a statement of the general principles of monetary policy for which the System is accountable."[23] He made a strong and lucid argument for his position and concluded with the homely proverb that "'Good fences make good neighbors!'"

In some respects, the Federal Reserve System had an uphill fight—the cards were stacked against it. This was a fight for survival—a battle to protect the integrity and independence of the System as they have developed over the past 40 years. By an excellent presentation of its case and with the strong support of Senator Douglas it was able to win a draw; if either of those factors had been missing it would have lost ground.

[21] *Report*, pp. 2-7. [22] *Ibid.*, p. 72. [23] *Ibid.*, p. 74.

GROUP DOMINATIONS AND ECONOMIC AND POLITICAL INSTABILITY

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I

This age is similar in one broad respect to other great ages. As were they, it is replete with conflicts of ideas.

Students of the passing scene label it "the age of chaos," "the age of insecurity," or, currently, "the age of instability." These labels, it would seem, are more than half-truths. In parts of the world the Four Horsemen continue to ride and there chaos rules. Throughout the world multitudes feel insecure; or so social psychologists find. Instability, political and economic, is also widespread. Many governments are uncertain and inflation is rampant. *The* (London) *Economist*, in picturing contemporary America, as a case in point, comments: "The national government, which in 1938 was forced to a new fever of tinkering in the hope of getting the economic machine to move without limping, is now facing the problem of how to curb it before it gets completely out of hand and smashes itself to bits."

Surely, no one can deny the appropriateness of this picturization or that the term "instability" is to be preferred to either the extreme "chaos" or to the seemingly less exact "insecurity." That instability, within both its economic and political confines, has deep taproots is moreover quite apparent.

This paper is a hasty examination of certain conceivable "causes" of instability and its manifestations in contemporary society. "Instability" is here given a broad meaning: the uncertain changeability of employment, of income, of governments, and of criteria governing economic and political action. It has thus both economic and political connotation; and, since social policy in contemporary society is largely politically determined, the emphasis should perhaps be on "political."

II

THE INSTABILITY OF AN INDUSTRIAL AGE AND THE DRIFT TO GROUP ORGANIZATION OF ECONOMIC ACTIVITY

Less euphuistically and perhaps more descriptively, these crucial years have also been called "the modern industrial age." Vigorous and dynamic, this new era has virtually erased the former largely agrarian and atomistically oriented society, in many respects relatively static and stable. And an individualistic enterprise economy has been well-nigh swallowed by a corporate and group-oriented economic order.

Under the atomistic organization of his economic activities, man found such a degree of consensus about the impartiality of the market system that he

believed that there was fairly good correlation between his efforts to "economize" and the return for his efforts and that, under the concomitant political individualism, he had a reasonable voice in social affairs. But the modern industrial age brought with it a new advance in the general cosmology and in the understanding of man's relationship to nature and society. Today, man is confronted with the need for reconciling his old, essentially deterministic and mechanistic, views upon the operation of the universe and of society (the unforseen hand) with new insights into the nature of man as an individual and his place in the universe. To him the many new ideas, the new techniques of production and the organization of production, the changing sciences, and the new beliefs about his own nature are being thrust upon him in such incomprehensible forms and magnitudes that he is simply confused about issues and their resolution.

Although he has gained more than a glimmering of an understanding of the deficiencies of the old thought and cosmology, man has not properly and completely digested the new. As he sees old traditions falling by the wayside, he realizes quite poignantly that old loyalties are being exchanged for new. He senses but does not comprehend that by his very own action and behavior he is forcing himself into new customs, rules, emotions, and values. He is especially no longer sure that the market system serves him equitably and justly. Consensus on a variety of issues on price and wage determination and on the nature of economic and political organization, as well as on the nature of society and man's role in it, is still to be attained.

Institutions, political and economic, inevitably must change or are now sagging under the pressure of change. For new ideas have one conspicuous peculiarity: They make complex the lives of men, until time and debate bring a degree of consensus about them. Consensus means a high degree of stability; absence of consensus, instability.

As man's motivations are in a process of realignment, the structure of the forces governing motivations is also changing. Broadly speaking, most people expect others to act towards them in given ways. Correspondingly, they have a similar duty to others. The structure is relatively stable so long as there is "correct conduct or behavior." Consensus on values and morals is also fundamental to stability.

Now, of course, economic behavior originates in the attempts on the part of individuals and groups, affected by change, to get an answer to a problem situation of economic content. As Frank H. Knight has often said, all of man's activity is problem-solving; he tries to meet change. As change moves him to act, he may recreate the economic and political organization of society by his very own actions and behavior. At the same time these very same organizations may reshape his behavior and the solution to economic problems is further confused. Therefore, modern man is not clear about how he may best organize his activities and correlate them with the activities of others, whether he should proceed through purely individualistic means, through the group, or through some combination of these two modes of action.

In democratic society, since its departure from the town meetings ways of

settling issues, man, not knowing precisely what to do about organization, has turned more and more to groups to give effect to and to get representation of his interests. The contemporary changes in ideas have greatly reenforced this drift.

Even though most social problems are non-economic rather than economic,[1] "economic groups," for want of a better name, have become notoriously conspicuous because problems of economic content tend to generate a greater national interest than do most other contemporary problems. Individual producers are superseded by groups thereof and today's economy is rife with the display of powers of these groups, as economic action is made conterminous with political action. The area of conflict is increasing, for by the shift to group action the individual is being side-tracked. Concomitantly the area in which acceptable conduct or behavior must be operative is widening.

III

THE EMERGENCE OF THE DOMINANT GROUP AND ITS AMPLIFICATION OF INSTABILITY

Whether they take the form of a cartel, the giant corporate business, a professional union, or the industrial union, economic groups seek to modify in some manner usually having political coloration, the existing organization of production and exchange of goods to fit their interests. For this purpose they are becoming more and more the political action group.

Composed as they usually are of large numbers of similar and dissimilar but related specialists of production (e.g., the Steelworkers, CIO; or the California Fruitgrowers Association; or even GM) they find the greatest effectiveness in action by highly centralizing their organizational activities through a hierarchy of administrative specialists. "Unity" of purpose and action is marked "essential" and by the centralization of power a high-level solidarity is supposedly achieved.

In this form the group is largely designed to function in the modern, complex,

[1] It behooves the economist to bear this fact in mind so that he does not seek to escape problems by building elegant economic edifices almost completely removed from the world. That kind of escape is found in some of the current mathematical treatments, wherein by the very postulates operative solutions can always be had, even though the postulates are unreal. This criticism does not deny the value of mathematics in economics; in fact the application of mathematics to economics must be encouraged. This criticism rather is concerned over some systems of economics that have been created; obviously there is an infinite number of such systems dependent upon the postulates named. But there must be balance between abstraction and realism.

There is a growing taint of anti-rationalism in economics today. It appears to stem from an addiction to the preservation of the limitations surrounding the accepted methodology. Economists may be rightfully accused by Whitehead of a serious omission: they do not recur sufficiently "to the concrete in search of inspiration." Sterility in thought must be the final product of the failure to recognize the facts.

See Milton Friedman, "Lange on Price Flexibility and Employment," *The American Economic Review*, September, 1946, pp. 613ff.; and Ernst W. Swanson and Emerson P. Schmidt, *Economic Stagnation or Progress*, pp. 76–79.

dynamic world; and to the impatient it is the best means to rapid action. Its aim is to influence some groups while at the same time it resists the action of opposing groups. These efforts obviously may influence greatly the economic and political alignments of the nation. Today, the net effect, as Henry Simons has aptly put it, seems increasingly to be the "focusing upon the interest of people as producers rather than upon their interest as consumers. . . ."[2]

But in this rise of the producer interests lies the rub. In uniting they tend to become ends in themselves and they may even seek to dominate the nation so that society and state are no longer distinguishable.[3]

The power to dominate increases as: (1) the membership increases and is "strategically distributed throughout the economy," (2) there is growing consciousness of and consensus upon certain interests, and (3) the top level organization becomes increasingly centralized and effective. As Spengler observes, the second variable is ". . . the cement that binds the individual members together and conduces to their acceptance of discipline designed to further their presumably common interest."[4]

As a high order of unity has been achieved within groups and in turn has contributed to group domination, industrial society has been unable to master the growth of group power and precisely for the reason that it has not fostered any acceptable ideas of unity among groups. If anything, it has contrived to fashion an incoordinate, noncohesive coalition of the now increasingly autonomous organisms into which the groups are developing. The groups are less and less pure aggregates or associations. More and more they are cellular structures with the individual members making up the cells. Equality is had at the expense of liberties. Under this development both economic and political organizations are so obscured that the contending group powers, although reduced in number, have actually been greatly amplified.

In the ensuing conflict for power the politically-ambitious have found a fertile soil for their purposes and a new element has been added to stimulate the growth of group domination of the economic and social structure of the modern industrial society. The uncertainty which has been generated by this change of affairs has led man to search even more anxiously for unity. To pursue Ernest Barker's argument,[5] in contemporary society this avidity for unity has been made into that side of the coin opposite to stability: stability would be achieved were there a high mark of unity. The politically-minded are quite cognizant of this desire

[2] Henry C. Simons, "Some Reflections on Syndicalism," *The Journal of Political Economy*, March, 1944, p. 2.

[3] To be sure, as long as there was some flexibility of groups, when one economic group achieved a certain degree of power and dominance other groups arose to oppose the earlier. Thus it may be argued that the labor group was inevitable since the state by default had permitted the ascendancy of business groups. Today the labor group, as do others, takes on a new connotation.

[4] Joseph J. Spengler, "Power Blocs and the Formation and Content of Economic Decision," *Proceedings of the Second Annual Meeting of the Industrial Relations Research Association*, December, 1949, p. 176.

[5] See his *Reflections on Government*, Chap. V.

and they get power by huckstering their notions of unity. They find "revelations" of common grounds of interest, theirs and the group's; and that common ground is made to rest on some concept or idea of unity. They thus make partners of labor groups by a superimposition of class ideas upon the special interests of the labor groups; or partners of business and so-called farm groups by an overlay of nationalistic ideas upon their special interests.

The class idea has become such a useful tool of manipulation of political alignments that, in spite of antipathies to Marxian dogma, not even national boundaries have confined it. Many traditional liberals now accept the "bifurcation," the proletariat and the bourgeoisie. Perhaps, too, there is no gainsaying the proposition that the class idea is an opportune means of deriving equivalent values for ideas.

In the attempt to cope with a social problem, conflict arises as the result of the failure to expand the socio-philosophical assumptions of each party to the conflict to embrace in some manner the assumptions of the others. When an individual or group seeks equivalence in values he or it is concerned that others shall consciously apprehend a given action and the idea behind that action and appraise them in the same sense or with the same feeling as has that individual or group; and he or it is also concerned that others judge whether an action and idea have the quality of rightness or wrongness assigned to them by that individual or group. Equivalence in values is had when the action and idea are accepted in approximately the same light by all parties to the conflict. Roughly speaking, "values" may therefore be said to be problem solutions and "equivalence of values" means agreement on a solution by all parties to the conflict.

In recent times the class idea has been transmuted into several specific types of groups. In Germany unity was achieved through the romanticism of the class as the "supreme race" and out of that romanticism sprang the strongly organized Nazis, a group both politically and socially important and eventually dominant in the German government. In Italy class unity was achieved through the idea of a syndicalistic society and from it rose the Fascists who, too, became the dominant group. And the Russian Bolsheviki partly are the transmutation of the Marxian idea of the proletariat. Each of these groups sought equivalents in values and the more effective the idea was in bringing solidarity, the more inevitable that the idea of class would breed such relationships, for no one of them had its origin in rationality. Essentially, each was the product of the will of a leader who fixed himself to already rising groups, such as he found useful to his purpose of getting extreme political power.

Yet these attempts to foster unity have not been very successful; in the end two of them were found wholly wanting. And the absolute form of "collectivist democracy" that is Russia, in no too distant a time may also come to an inglorious end. There another form of bifurcation, even more determinate than the earlier Marxian, has evolved; the bifurcation between the ruled and the ruler, the acceptance through revolution by the proletariat of the single leader who is conceived as the father of all people. Under those circumstances there may be great equality of all the people of a nation, with the exception, of course, of the

leader and his cohorts; but there cannot be any freedom in the sense of the voluntary democracy.

Through the class idea of unity, political segments of a population may therefore come to share certain moral sentiments about behavior which may or may not be directed toward conjugate economic and political goals. But, unlike groups, the class has no exact or even discernible organization, unless it is driven to some leadership-induced end, as in Germany, Italy, or Russia. Class represents really only a kinship in sentiments and ideas; but only a bare minimum of unity may develop, so small indeed that there will be further conflict among powerful groups and, therefore, growing instability of economic and political organization. Even in America the politically ambitious have sought to use groups in much the same way as in Germany, Italy, or Russia. But, as yet, their success has not been as notable.

In the American version of the industrial society three truly dominant groups have evolved, agriculture, business and labor. Their feelings for the need for unity emanate from the differing ideas of equivalents, the products of their respective levels in the economic structure. Feelings especially arise from the insecurities which the modern industrial age has thrust upon many of its people, the result in no minor degree of the inability or refusal to understand that individual interests and values have been side-tracked by the impersonalness of the market economy, in its automatic organization of producers and consumers.

In their efforts to overcome this callousness, individuals in great numbers have as a last resort attached themselves to groups. But, because of the growing organismic character of the groups, these very same individuals have found their broad wants still unsatisfied and themselves assimilated as cells into an even more impersonal organization. This very defection of the group has contributed much to instability of economic and political organization in America.

As reflected in the actions of its leaders, the state itself has moved from pillar to post in an effort to bring unity, while at the same time it may be said to have made concerted efforts to cater to certain groups. Among other instrumentalistically oriented attempts, there have been or are tinkerings with and, eventually, "magnificent manipulations" of the monetary-fiscal system for the purpose either of (1) countering conflict or (2) of meeting the demands of the dominant groups.[6]

These practices, the ultimate in pragmatism, appear to be limited in their usefulness and they may have succeeded only in lending further impetus to the process of assimilation of individuals into dominant group organisms and, indeed, have added to the already growing instability.

[6] Keynesian and Wicksellian economics sprang up largely as principles intended as a guide to the first purpose. Unfortunately, some dominant groups have sought to apply the principles to their advantage so that Keynesian economics particularly has become indentified by some with these group interests.

See, however, David McCord Wright, *Capitalism*, Chaps. 5 and 6: Theodore Yntema, et al., *Jobs and Markets*; and H. L. McCracken, "Economic Contradictions," *The Southern Economic Journal*, April, 1947, pp. 344ff.

IV

VALUE DERIVATION IN A GROUP-ORIENTED ECONOMY

Social conflict thus largely stems from the failure in society to resolve those divergent ideas which are sustentative to moral, economic, and political values. Lacking adequate expressions of values, man has been driven to forego individual decisions of a maximization nature. But without values that are individually and socially acceptable, the only recourse is to authority. Therefore man has been willing in some degree to relinquish choice to groups in the hope that they will provide for him the necessary economic and political action. This drift towards the relinquishing of choice appears to be the consequence of the growth and development of a tremendous industrial population. Compared with an agrarian, an industrial population is differently motivated and acts in a distinct manner. It essentially manifests a preference to be assimilated into groups. And as an individual becomes a part of a group, his very actions tend to convert the group into an organism. Deficient in individual value expressions adaptable to the changing cosmology and ideas of nature and the purpose of man, the individual permits himself to be subjected to the emotionally couched ideas of those who lead the group. New moods develop and in their formative stages are intemperate; and the group today is therefore intransigent in spirit. The groups in themselves tend to be increasingly explosive in action as their cellular structures of subjected individuals are more and more emotionally directed.

While their constituents can and do remain individualistic in a few areas of thought and action, they turn readily to the use of joint action, for they are the discoverers of the strength of an organized vote; note; "organized," not "popular" vote. To them democracy comes to mean equality but not freedom or liberty. Therefore, certain elements of individualism appear to have bypassed the new giant and, in times of *Sturm und Drang*, it is hard to impress upon many the validity of the traditional libertarian view.[7]

In this setting it was only "natural" that the (group) leader should emerge. The groups when acting as associations were not as successful in deriving the desired values and actions as might have been expected. The group members eventually turned to leaders, for through them a semblance of unity, at least within the individual group, was had.

This leadership element of modern industrial society is unique. It does not have a previous counterpart in history, whatever the group to which it may attach itself. It is quite different from the old-fashioned labor leadership seen in Gompers, Strasser, Fry, Woll, and others. Nor is it comparable to the old-fashioned entrepreneurship found in almost every Nineteenth Century town and city of this country and Western Europe. Then an acceptable science of individual satisfactions based on utility assumptions was to be had and, held in check under relatively simple maximization principles, the leaders of those days were concerned only with the prompting of individual action. In themselves these leaders were therefore of a significantly different temper and mind than are those of today.

[7] Cf. Pitirim A. Sorokin, *Crisis of our Age*, Chap. I, and Barker, *op. cit.*, pp. 225–276.

The reconstructed leader has taken over much of the business world, certainly most of the giant corporations and many of the important trade unions, especially the so-called industrial labor organization. Possessing as a rule a far better understanding of human frailties and deficiencies in general than did the old-fashioned entrepreneur or labor leader, and using modern techniques of persuasion and propaganda, of management, and of human relations, the modern leader is a specialist in the technique of the administration of large-scale organizations, whatever their nature, business or labor, governmental or private. Many of its personnel are trained in schools of business and public administration on the collegiate and university levels; they are being made into the chief guiding element of the modern industrial economy. In so far as appropriate and acceptable values have been discovered to guide collaboration, the methods of this personnel are largely those of collaboration and not of intimidation. Throughout the western world this new calling has achieved eminence and respect. Already it has succeeded in building about it a myth of superiority in management and administration of "large-scale" activities.

Yet this myth must be penetrated if society is to make the best use of the new leadership principle. Even this enlightened form of suzerainty may develop its absolutism and, in fact, it already is suspect. In the past history of the Western World the leader has arisen only because he represented and associated himself with a set of ideas or values. In that sense the person representing the ideas has not really led, rather the ideas have led. But in modern society with its dominant group orientation the process in part has been reversed; the leader nowadays does not represent the ideas so much as he originates or initiates them; hence, absolutism emerges.

Consider the appearance of this process in the business corporation. At first the managerial element or leaders of the corporation set out to relieve the stockholders and boards of directors of the burden of risk. It succeeded in doing so to a large degree by evolving a super-corporation and by transferring the decisions about policies involving risk to specialists placed in the organization on a staff and functional basis. But it was unable to stop at this point. As Frank Graham has expressed it, the managerial element has even attempted to thrust much of risk upon society at large.[8] By interjecting its will into the economic-socio-business structure it has been so successful in reconstituting those institutions governing enterprise formation and operation that it may have virtually set aside the entrepreneurial function, perhaps the most important single function of any society. In addition, many contemporary prices and wages are no longer market-determined but have been made exclusively leadership-determined. Other than market criteria have been interposed into the formation of prices and wages.[9]

[8] Frank D. Graham, *Social Goals and Economic Institutions*, pp. 63–72.

[9] There is no need to go into detail on this point. The arguments of Bronfenbrenner, Kerr, Mayo, Ross, and Reynolds are quite familiar. But see also Talcott Parsons, "Wants and Activities in Marshall," *The Quarterly Journal of Economics*, November, 1931, pp. 101–140; and Bruno Suviranta, "Fri och Bunden Prisbildning," *Festskrift Tillägnad Rainer von Fieandt*, pp. 195–220.

Trade unions too have added their managerial element. The leadership of the modern union has been made into a professional operation and is composed of personnel especially trained in the techniques of pleading, persuasion, organization, and administration. Many of them, as are business leaders, are being given formal and special schooling at colleges and universities in the social sciences and in industrial relations, along with those being "educated" for business. This new union leadership is evolving new methods for union participation in wage and price determination and even for assisting the corporate managerial element in the reduction of some corporate risks, by its promulgation of laws designed to advance the modern industrial structure of society and to guarantee certain securities (in the generic sense) of modern business enterprise.

Less and less, therefore, decisions on wages and prices and on other economic problems derive from the sum effect of the dollar votes of consumers and entrepreneurs in the market; more and more such decisions arise and eventuate in group leadership. As leadership decisions gain support from group memberships, any system of individual choice, whether electoral or market in nature, tends to be nullified. Group action comes to depend almost entirely upon decisions originating *in camera*. As fewer and fewer groups achieve ascendency, this manner of decision making is an even greater threat to the stability of economic and political organization. For then individual choice, still resting insecurely on a conflict of ideas, is completely abrogated and conflict is raised to a level where emotions become the mainspring of action.

Contrary to Simons, the group so conceived is not atavistic but modern. New and powerful afinities and alignments have appeared. But they arise in authority, not in contract under law, nor in discussion democratically conducted. Indeed, with many corporations and unions of a size and strength comparable in scope and power to that of some governments, the leadership element of modern industrial society coupled with its large organizations of suspiciously monopoloidal tendencies takes on characteristics of certain forms of collectivity. And as its powers increase, it turns into a hierarchy of a ruling clique superimposed upon strata of supervisory and working forces.

A community new in economic and political content seems thus to be developing. The Western World is now in the transitional stage to this community. What form it may take and precisely what criteria for the economizing of resources it may evolve is the burning question. For some purposes it might even return to a market economy. Those who are traditional liberalists—and the writer includes himself among them—hope so, although they go around nourishing a secret speculation that the old girl might come back from the beauty salon transformed into a Parisian demimondaine; the economics of the perfectly competitive economy can be perfectly boring.

Nevertheless the emergence of the leader and leadership values have their consequences. The leaders, while having won a degree of unity and security for members of dominant groups, have no more than the state brought peace to modern industrial society. Even though the leaders have succeeded surprisingly well in "convincing" their constituents of the values which they have recreated,

they have not succeeded in "convincing" each other. Nor, fortunately for the community in certain respects, have their attempts at persuasion been highly successful beyond the group periphery, and simply because no single group can really claim that it can provide the right values and means to the attainment of the common good.

Ideas are only essences of values. To make values acceptable some science of satisfactions which gives broadly acceptable meaning and specificity to ideas must be had. But in a group-oriented economy such a science as will have applicability in particular to group action is still to be found. And whether it will be found may even be debated. For one thing, group maximizations are of a rather nebulous nature, since non-economic consequences of group action may be given greater weight than the economic consequences. Indeed, group activities may not be maximizing activities at all. Group satisfactions involve more than want satisfaction in the narrow sense of utilitarian economics. Methodologically speaking, moreover, it might also be argued that the politico-economic processes arising under group action are of such a nature that the point-in-time analysis of utilitarian economics in applying the marginality principle is far from suitable to such processes, for both temporal and spatial dimensions are involved.[10] A new mathematics of satisfactions appears to be necessary before a science of group satisfactions can be had. Value derivations therefore have not as yet reached even a level of simple description.

In a word, the social scientists have defaulted to the leadership principle, for a science of group satisfactions can hardly devolve upon group leaders. What values have been originated by the leaders are therefore highly uncertain in both meaning and specificity.

V

THE THREAT OF GROUPS TO AN ECONOMIC STABILIZATION PROGRAM

Recognizing man's plight in the confusion of a changing world and the reason for his abrogation to groups of some of his liberties, the group stands on the one hand defended and on the other, accused. It seeks to gain stability and unity for its membership; but through the very actions which favor the membership it contributes to the instability of economic organization in general by intensifying pre-existing monopoloidal practice and the inflexibilities in adjustment to broad change.

This contradiction in the actions of groups may best to brought to focus through a brief review of Wright's and Simons' positions on monopolies and groups and their practices.[11] Wright believes that not an inconsiderable amount of monopoloidal practice arises from a condition inherent to the competitive economy: there cannot be perfect knowledge about the actions of all producing and consuming units. As change arises, even under pure competition, there is

[10] Ernst W. Swanson, "A Review of Business Cycle Theory," *The Southern Economic Journal*, April, 1950, pp. 400–410.

[11] David McCord Wright, *Capitalism*, pp. 156–164; Simons, *op. cit.*

therefore imperfect adjustment leading to frictional oscillations. Hence monopolies developed to combat the resulting instability and, by Wright's designation, there may therefore be such entities which conceive themselves as "good monopolies" whose purpose is "to stabilize."

On the other hand, it would seem that there is some merit in Simons' argument that institutional change, predominantly in the negation by groups of competition, and the concomitant abuse under group pressures of the monetary-fiscal system have contributed to episodic upsets of the economy. In modern times the impact of these factors has been far greater than that of the inherent oscillations; in fact Simons would write off the latter as of no great consequence. It may be added that, while monopolies are formed to counter instability their efforts coupled with group actions may at times generate an opposite effect, and structural or inter-industry displacements of important economic relationships may appear and lead to lasting disequilibrium. (Currently, the Western World faces a boom of volcanic proportions, partly an outgrowth of such displacements.)

As dominant groups gain such strength that they are able to dictate to an increasing degree national policies on important economic matters, they seek to solidify their positions. They move in the direction of freezing their interests and membership, to the extent even of becoming syndicalistic in spirit and emotion. The group is then no longer flexible in either policy or organization.

Flexible economic groups on the other hand are fluid as to members and ideas and since they largely serve the individual, they readily adjust to change. Therefore, group fluidity is especially essential to the adaptability of democratic society to new ideas. Dominant minorities are suppressed.

But when ideas and precepts underlying economic and political unity are made intensely uncertain, existing differences in values take on magnitudes all out of proportion to facts. Concepts of purpose are strongly shaken; unsettled issues multiply. As has been argued, authority—economic and political—is sought. Thus, right now, both union membership and corporate shareholders are largely of the persuasion that their leaders and leadership groups are a complete "expert" element of union and corporate guidance, capable of providing nearly all, if not all, the ingredients of politico-economic action. But under such an interpretation, the choices among liberties of the individual, the corporation, and the union are made so indeterminate that these very institutions are reconceived and certain of their elements accepted as abstractions or as values in themselves. (Consider especially the acceptance of the corporation and the trade unions as sovereignties, while still defining them as associations.) This conflict over the nature of liberties may add to the fixity in ideas and groups.

The public, including many economists bitten by the bug of absolute pragmatism, has drifted into the belief that the right answers to economic problems can be had by recourse to authority, to the expert. This attitude springs from a misguided worship of the natural sciences and ignores the fact that the final source of expertness is general discussion of issues. The appeal is then to the instrumentalistic; the economic order is a machine and all that is necessary to

cure all economic (and social) ills is a group of experts (with adequate authority) to run it.[12]

No wonder that fixed groups emerge! They develop as a reactionary organism seeking absolute solidarity with a will separate from the wills of their adherents. They seek to press this will upon their adherents, first, and upon the community later. Such groups are no longer an association: they are truly a collectivity, wherein discussion of issues is debased.

A bastard form of competition among what are essentially collectivities, sometimes called "bilateral or trilateral monopoly," is therefore ascendant. The decisions on price and resource allocation more and more originate in strategy, not in mutual exchange; at other times, to use strong language, out of plain, unadulterated collusion. Disequilibrium is made almost continuous. The rivalry of these groups may be more appropriately termed "solidarity competition." The problem which it raises exceeds in importance the long-debated "monopoly problem," even though obviously related. The public unfortunately is only remotely aware of this fundamental nature or instability. Thus the drift towards price control is symptomatic of a desire "to do Something"—"Something" with a *capital* letter—without recognition of the real issue.

There is no simple formula for stabilization. That is the myopia under which even such an able student as Simons labored. He merely sought to remove the abuse of the monetary-fiscal system and the market without considering that this abuse has deep-seated sources, going beyond group action *per se*. The details need not be developed; they have been adequately examined by C. DeLisle Burns, J. M. Clark, David Wright, John J. Jewkes, George W. Stocking, Myron Watkins, and others.

VI

SOME PRESCRIPTIONS FOR STABILITY

Although the group is primarily a drift away from individualism to a sectional authority, it may at the same time, as has been argued, signify the desire on the part of its leader to identify the group with the state. To the degree that the group can dominate the interests of society it obviously is an instrumentality

[12] Cf. Knight, *Freedom and Reform*, pp. 36–37.

The argument that the expert can and must fabricate criteria for social policy overlooks a most essential element, that the operational ideals derive only from criticism of the existing societal situation. Knight's position that "all activity is more or less explorative" is particularly pertinent. In democratic society the criteria emanate from exploration of possible alternatives.

Those who revile libertarian economics because they believe that they can supply the criteria in advance of action must have such a conception of the ideal economy that they may be accused of the "fallacy of misplaced concreteness." They fail to comprehend the impossibility of doing what is the best for society without consideration of what society itself is, and they must be unaware of the significance of social relationships to the formation of criteria. Were they to go beyond existing situations they would no longer treat "social" criteria but simply their own and these must be purely *Werturteile*.

for the abridgment of the powers of the state. No democracy can tolerate this elimination of the essential state function of equalizing powers. Moreover, increased domination of the state by producer groups would have another serious connotation, for the broader elements of the state in its relationship to the maintenance of society may be buried beneath the pressure of the special interests of dominant groups. Need it be said that should domination grow, any one producer group may entirely take over society!

To be sure, under complete domination of society by a single producer group, political stability is possible. But such domination does not guarantee general economic stability for here, too, the broad social interest in "the best possible resource use" would be subordinated to the desires of the members of the then ruling group and the community interest in economic affairs might go hang.

Clearly, then, the first measure on a program for economic stabilization is the diminution of the powers of any group, particularly producer groups, to a manageable size by the state. The state must have strength in the face of producer monopoly or producer group powers and the state must adjust its government to the needs of the modern industrial society so that "dominations and powers" will be subjugated to the philosophy of "economic and political opportunity through a democracy of community." In such a reconstruction of its functions, the state would be given the only powers of sovereignty while the powers of groups and producer groups, especially, would be reduced to the minimum powers of an association. The state would set the boundaries of action and behavior of groups, and individuals would again be given the right to association without domination by anyone in the group.

In this connection, the question, whether or not the top level personnel of the political bureaucracy of the state, the political leaders, will be more "community-minded" than is the personnel of the leadership element of groups and corporations, may be raised. This question is so encompassing in its implications, however, that it can but be touched upon here.

While they are similar in the one respect of being leaders, that these two kinds of leadership element, political and private, reveal basic differences may nonetheless be argued. Paradoxically, the continuance in office of the political leader appears to be far more fortuitous nowadays than is the stay in office of group and corporate leaders. As a rule, as the monopolistic character of producer groups and corporations grows, those who attain to that leadership are strengthened in their positions. In contrast, as long as the electorate retains the reins of government in its collective hand, the political leader has neither dominant power nor permanence of office. He is guided by standards which oddly enough are fairly competitively determined, for his policies and behavior must reckon with a public appeal forced upon him by a rivalry for office which emanates from his own and other political parties. By the circumstance of his office, he is thus subject to and conscious of the conflicts of numerous socio-economic interests and he must lend an attentive ear to the public discussion and debate on changing socio-economic ideas and movements. Finally, since the political leader can hardly afford to become as rigid in ideas and actions as can the group or corporate

leader, he is less inclined than they towards absolutism. He senses that, in spite of the acclaimed absolutism by group and corporate leaders, their ideas and actions in reality are relativistically determined, i.e., they are defined only in relation to the standards or norms of socio-economic action of the given group and may fail to reflect the community norms.

The argument that the community interest rather than the group or corporate interest would have the primary influence upon the ideas and actions of political leaders is therefore quite plausible. Indeed, the evidence is that the community interest has been given preference in the majority of decisions and policies of the state. At those times, when a dominant producer group has succeeded in swaying political leaders and the political bureaucracy noticeably, in the majority of such cases its influence has been neither consistent nor overpowering.

The determination of the amount of power to be transferred from the group or corporation to the state, fundamentally, is the transformation of the existing economic organization in some manner, given the community interest. This determination in the voluntary democracy is not made solely and exclusively by the political leader and bureaucracy. It is first legislative. Reflecting in reality the wishes of the electorate, the transformation is delimited in its broad respects by the parliament or legislature. Only certain powers are delegated by the legislature to the leader, and only then can he take the precise steps of reorganization. His function is executive and administrative within stated limits.

Quite essential is also the general realization that economic relationships are human relationships. In an industrial age commutative justice comes to transcend in importance distributive justice for the reason that groups which tend to be organismic in nature nullify the individual interests far more than did the former market structure of a relatively atomistic society. Following an argument of Wright's, this writer does not by commutative justice mean egalitarian justice, but equality of opportunity and equality of moralities. Salient is the restoration of the right of all to participate in discussion and debate of issues which are of interest to each; the modern corporations and unions gravitate towards a denial of this right.

Yet it must be recognized that the state itself cannot "deliver the common good." It can only help advance the common good by bringing together in harmony the producer and other groups. In this connection the leadership of modern industrial society can be made into a highly useful function. The future of democracy is indeed black if it cannot be generally understood that the growth of society, materially and spiritually, comes only from the participation by all, no matter how small the contribution of each. And the group or corporate leader must be made to recognize that his social responsibility lies in working with the state to set the stage for individual participation.

However guided, that society which sets out to remake the human race itself is from the very first doomed to failure. Leaders may bring unity within the group but they cannot effect social unity in the same manner as in the group. Rather their proper function is to help each member of the group to keep his

dignity as a human being and not to let the group usurp the dignities of any member. Those leaders who move toward this goal will then be truly leaders, in ideas and in the encouragement of new ideas. And they will make possible the restoration of the entrepreneurial function by their abhoring and deploring of solidarity competition. Solidarity competition, even when highly accepted, seems incapable of much beyond reaction and there must be an agent who always will bring truly new ideas into production and marketing and carry them into fruition.

Conflict cannot of course be completely escaped. It will always be present in any society as long as the members of that society seek to improve their lot for to do so they must have ideas. But, it should be emphasized, ideas do not come in twos; bifurcations can be dangerous, particularly the bifurcation of class. Let men understand that the idea of class conflict is really a chimera, that in a free democratic society it has no reality. It would seem that no group (nor any nation) can achieve unity by its continued support of the class idea, for the pursuit of that road leads any group (or nation) to its downfall; other ideas essential to the development and continuity of the group (or nation) are discouraged.

In a word, a reformulation of ends in terms of the broader satisfactions such that economists (and other social scientists) shall better understand them is imperative. For if the economist does not understand the ends how can he prescribe about the use of means![13]

Simons' position, that the ends of society be restated and that the powers of producer monopolies and groups be curtailed, is thus to be recognized and accepted. That the market structure and the price system can be wholly set aside in any industrial economy does not seem possible. And a workable market and price system depends upon "a workable competition," among firms, individuals, and groups.

Surely, then, no one will deny that an improved theory of competition of groups and of the nature of bilateralism (or trilateralism) is paramount! Present price and value theory does not yield solutions sufficiently determinate to supply proper social policy on the actions of corporate and other monopolists and producer groups; and, before an adequate theory can be furnished, the economist needs to learn more about inter-firm and inter-group relations and behavior. It is highly desirable that he come to think in terms of inter-dependence of actions among individual firms and of firms and trade unions, that each firm or group attempts to bring into its data suppositions on what the competing firm or group may be most likely to do.

It should by now be manifest that no monetary-fiscal program by itself can effect a relatively stable equilibrium which is consistent with economic growth and the common good. Group and corporate actions as a rule are much too removed from the community interest. The economist must knit together monetary-fiscal theory with value and price theory so that the instability effects of

[13] See Wright, *op. cit.*, p. 19; and compare Kenneth E. Boulding, *Economics of Peace*, Chap. 6.

monopolistic and group behavior can be clearly understood. Monetary-fiscal policy based upon theory which has not reached this stage of development partakes more of a panacea rather than of an adequate policy; it remains largely alleviative and is not corrective. In no minor respect, therefore, the truly fundamental task is the removal of solidarity competition among groups and the establishment of an effective competitive economy, effective in the sense that the operation of individual choice is re-established to a high degree.

Yet Wright's position, that monopoly practices are in no small part a product of instability, must be conceded and properly recognized. Therefore, a monetary-fiscal program designed to reduce the impact of the inherent economic oscillations of the modern industrial society is also essential. The recent contributions of the Keynesians and the Neo-Wicksellians have been of such a magnitude and value as to render a fairly realistic and tractable monetary-fiscal theory. Couple this theory with the better understanding of the interdependence of firm and group and with an improved theory of choice, then the proper ingredients of a program for a relatively stable economic equilibrium and a stable political organization are at hand.

* * *

Man's earthly future lies in his own hands. Whether he will reach in this age a higher greatness than he has in past ages depends upon him and him alone. Today, he is confronted with a dangerous division of his politico-economic community because he has permitted the ascendency into power of groups who as collectivities or organisms under a new form of leadership have yet to recognize that their best future lies in every man's thought and action. No matter the brilliance of the leaders of the groups, there is no greater protector of man's future on earth than he himself; that much is to be learned from both old and contemporary cosmology and philosophy. Man chooses his own destiny by what he decides to do about group dominations and powers.

CERTAIN QUESTIONS RAISED BY HICKS' THEORY OF THE TRADE CYCLE

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The title of Hicks' new book, *A Contribution to the Theory of the Trade Cycle*, implies both that the contents embody a contribution and that Mr. Hicks is concerned primarily with a deductive rather than empirical approach to the problem of economic fluctuations. In the field of business cycles, wherein rests a multiplicity of theories, the writings of particular investigators are likely to differ considerably. The impact of cyclical swings differs in various times, places and environments; various interest groups tend to develop diverse explanations of identical events; the several writers possess varying intellectual backgrounds or methodologies; and many theories have become popular more as convenient bases for the formulation of public policies than on account of their force of logic or reality. Hicks, writing as late as 1949, has profited by earlier studies and attempts to weld the better features of several preceding theories into a whole, both logically consistent and more in accord with basic economic facts. However, he would be the last to claim his effort as a finished product. Rather, he attempts primarily to select a limited number of forces and tools, sometimes a bit too narrow for relevance in the real world, to explain what forces occasion the conditions of economic fluctuations we have observed in the past. Pragmatic problems of how to control or improve such conditions have deliberately been slighted. The effort is directed primarily toward explanation.

As one might expect from an economist renowned for skill in formal economic analysis, Mr. Hicks has packed the few pages of this volume with concise but difficult material. Consequently, this paper will but attempt a summary of the important tools and ideas, and concern itself principally with an analysis of some of the methodological and policy questions, both old and new, suggested therein.

As a preview to this summary, it might be well to orient Hicks' general approach. Hicks contends that Lord Keynes put the cart before the horse, inasmuch as Lord Keynes emphasized and revealed the determinants of particular levels of economic activity but neglected the question of those short-term, rhythmic fluctuations that seriously limit our ability to profit by Keynes' policy formulations. Therefore, refinements of cycle theory must be developed to fill this gap. Essentially, he argues that the theory of economic fluctuations should be stated in terms of "real" output and that inherent "real" fluctuations are both a necessary and a sufficient explanation of cyclical swings. Consequently, he treats fluctuations due to monetary forces as secondary and aggravating phenomena. Now let us proceed to a summary of the antecedents and reasoning embodied in Hicks' theory of the trade cycle.

Hicks acknowledges his indebtedness for the prior work of three writers, each of whom were supposed to have closely approached THE theory of the trade

cycle. Specifically, from Keynes he borrows principally the savings-investment mechanism and the multiplier tool, but he makes little use of the Keynesian interest rate theory. The acceleration principle developed by J. M. Clark and refined by Ragnar Frisch is received with open arms and exploited to the fullest. Finally, Hicks attributes three key features of his theory to the influence of R. F. Harrod. The first is the idea that one must treat the trade cycle as a phenomenon of an expanding economy, with fluctuations about a rising trend. This obviously requires a dynamic model. The second is the belief that such a study is better couched in terms of a theory of "real" output rather than a theory of employment. This view, one shared by Boulding and others, actually suggests that Keynes emphasized the wrong variables and that his theory suffered from its inability to incorporate easily the acceleration principle measuring the effect of changes in output on investment. Finally, Harrod is credited with having pointed out that previous estimates of the "investment coefficient" have been larger than those needed to produce the usual cycle. Hicks then essays to weld these units into a cohesive theory of fluctuations.

Hicks uses the familiar Keynesian formula couched in "real" terms, or RY = RC + RS, where R denotes measurement in "real" quantities; but develops a multiplier analysis more along Robertsonian lines. Assuming that the multiplier theory depends upon a fair degree of responsiveness of output to changes in effective demand, Hicks compares the typical Keynesian Savings and Investment Schedules (Figure 1) with the familiar Marshallian Supply and Demand Schedules, the point of intersection in each case being the short-run equilibrium point. The slope of the Savings schedule measures the Keynesian Multiplier. It is well known that the Keynesian static model makes implicit assumptions as to time periods; and Hicks prefers a more dynamic approach on the grounds that in this form of static analysis the continuity of the change process is veiled. He also takes issue with the tendency of most Keynesians to define savings and investment as equal without recognizing the fact that they are assuming that adjustments to a new equilibrium have already taken place. He admits that at any point in the change process *actual savings* equal *actual investment* but argues that this actual savings is not necessarily functionally related to the level of income under consideration. Therefore, if actual savings were greater or smaller than the "proper" volume of savings, equilibrium is not obtained. Consequently, Hicks adopts a Robertsonian period analysis with sufficient consumption lag so that consumption is determined by the national income of the previous period. Thus, in Figure 1, when investment increases from I to I′, the Keynesian theory would reveal a smooth transition (Pd) to the new equilibrium position. Output would go from M to M‴. This is tantamount to the classical concept of perfect flexibility. On the other hand, the Hicks-Robertsonian period analysis would suggest a fluctuating adjustment, although the successive gaps between S and I would become smaller and smaller, until arrival at the new equilibrium level. The adjustments would follow the curve Pb, x, c, y, d. Thus Hicks is able to analyze the intermediary steps in changes in income through M′, M″ to M‴, or those phases wherein savings is larger or smaller than investment.

This method has definite advantages. The consumption lags may be either large or small; the larger the lags, the slower the adjustment and vice versa. Hicks attributes to salary and profit lags more of a role than the traditional wage-lags. Furthermore, one has the feeling that this equilibrium must always be moving, since consumption is usually adjusted to the income of some previous period or even based on an *average* of past income levels. These points seem rel-

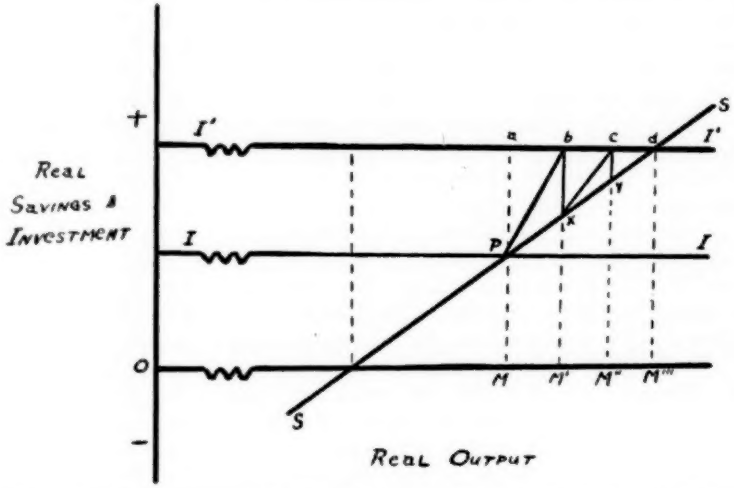

FIGURE 1. SAVINGS-INVESTMENT SCHEDULE ANALYSIS COMPARING THE PERIOD ANALYSIS OF HICKS AND KEYNES

Hicks uses a Robertsonian period analysis wherein Savings equals Investment only after movement through several "periods" has brought about equality. Keynes uses an implicit ex-post time concept wherein Savings equals Investment at the end of the period when all adjustments have taken place; e.g., Keynes would move his aggregates directly from M to M''', while Hicks would analyze the intermediary steps through M' and M'', and would attach importance to those phases in which $S > < I$ with significant effect on the multiplier and accelerator. This is based actually on the Robertsonian assumption that consumption lags (say one period) behind receipt of income. Obviously, variations in the lag are considered to govern speed of adjustment. The important lags are wage lags, salary lags and profit lags.

evant, since the Multiplier is of value in predicting future trends, and this might explain part of the accepted stability of consumption and the attending drag on the current income-investment ratio. Similarly, it suggests that since induced, multiplied fluctuations in consumption reflect only the initiating fluctuation in investment, that the Multiplier is generally a stabilizing influence, e.g., one tending to offset the impact of fluctuations in output as a whole on investment.

Hicks regards the Acceleration Effect, the effect of changes in output as a whole on investment, as the major cause of economic fluctuations. He would

argue that Keynes' preoccupation with the somewhat longer run theory of employment prevented him from the analysis of such changes in output because he assumed the rigid wage rate. This prevented his use of the Acceleration Effect and forced him to analyze *movements* in his aggregates through the use of his psychological propensities, the marginal efficiency of capital, and the theory of liquidity preference.

Hicks, on the other hand, evidently believes that a real output trade cycle theory applied to an expanding economy permits an intelligent and valuable use of the Acceleration Effect in explaining the fundamental properties of economic fluctuations.

Using "demand for output" in the Swedish ex-ante sense rather than the actual output volume as the force affecting investment decisions, Hicks advances three characteristic phases in investment reactions to increases in demand. The first phase, a reduction in inventories, actually is disinvestment. This phase gradually changes to another phase typified by induced investment in additional stocks and followed by increases in fixed capital to adjust equipment to the larger output. The third and final phase is typified by long-run oscillations in investment due to an alternate rise and fall of depreciation reserves in the replacement process. At the same time, the overlapping of demand spurts or declines intensifies or dampens movements of investment. The downswing reveals a similar pattern in reverse. However, he finds significant differences in the behavior of the accelerator in booms and recessions. While recession phase one resembles its boom counterpart in rapidity, the second phase (the tail) is long and drawn out and phase three is usually insignificant. But more of this after a brief perusal of the Hicks cycles.

After such introduction of the analytical tools, Hicks, true to his training, seeks some equilibrium position from which to measure relative deviations in actual output. He sees the possibility of equilibrium in a regularly progressive economy given the following conditions:

1. When output is growing at a constant rate.
2. When induced investment tends to be a constant proportion of output.
3. When consumption is a constant proportion of past output, and therefore savings is a constant proportion of income.
4. When autonomous investment (investment not governed by changes in output; e.g., public investment, innovations or very long range investment) bears a constant proportion to output.

In other words, Hicks' equilibrium is some pattern of constant proportions, for the economic system cannot remain in progressive equilibrium unless it is completely adjusted to that pattern. Then, if an economy tied in this manner still oscillates, it demonstrates the inevitability of the cycle due to inherent instability.

Elaborating the concept of the "investment coefficient" (the ratio of induced investment to the change in total output it calls forth), Hicks analyzes the impact of some exogenous initiating force occasioning a deviation from the equilibrium. He employs diagrammatics, (see Figure 2) to show the relative deviations

of actual output from a rising equilibrium line (EE) over time, and distinguishes four alternative divergence effects. Specifically, one might see:

1. A return to the equilibrium path (p1, a,) whenever the "investment coefficient" is below some critical lower point, at which time the stimulus fails to generate an acceleration effect.
2. Damped oscillations (p1, a, p4) occasioned by an investment coefficient just equal to the lower critical point, resulting in mild acceleration effect.
3. Explosive oscillations (p1, p2, p3, b) due to an investment coefficient of medium force generating a larger and larger acceleration effect.
4. A relentless divergence (p4, d) which seldom or never occurs on account of certain natural limitations.

Hicks then criticizes the popular belief that damped oscillations (type 2) propagated by a critical investment coefficient are the most common. He contends that explosive movements are probably the more usual case, but that certain restraints tend to cushion their full impact, and he dwells at length on two major restraints. One restraint emphasized by Hicks is the full employment ceiling—the point at which output becomes inelastic in response to an increase in effective demand. Monetary action by the banking system and the state is regarded as another, though secondary, restraint. It might be well worth our while to examine each a bit more closely.

Hicks regards the full employment ceiling (FE, in Figure 2), an ever present but progressively rising limit to increases in real output, as the major constraint limiting explosive or relentless divergences. In other words, the Acceleration Effect might generate a rapid expansion from P1 to P2, after which additional pressure can only force output along the full employment line. Up to this point the theory reads like an employment theory, but, whereas the Keynesians probably would argue that the economy should attempt to walk the tightrope between unemployment and inflation, Hicks contends that output *must* bounce back from the ceiling after a time because the previous expansion had been generated by investment induced by *past* increases in output. Hicks further argues that after approaching the ceiling, the current volume of induced investment adjusts to the slower rate of growth in output and is insufficient to support that output level for long. His theory of the inevitability of the cyclical swing appears to depend upon this ingenious explanation.

As mentioned above, Hicks argues that in the downswing the negative Acceleration Effect is large only in the initial phase evidenced by rapid disinvestment induced by declining output. After this primary wave of disinvestment, the process becomes much more gradual because disinvestment in fixed capital can take place only by a lengthy wearing-out process. For this reason, and because of the relative stability of absorption by consumers, the negative Acceleration Effect is not nearly as powerful in later slump stages as one might expect. Indeed, the major force tending to accentuate the rate of decline at this time is disinvestment in working capital and stocks, a force which is subject to few technical magnitude limitations. Even here the holding of suplus stocks is more a financial burden than a threat, and this burden might be preferable to the

excessive losses frequently accompanying hasty disposals of surplus stocks. Eventually, however, the economy arrives at a "slump equilibrium" (LL) where autonomous investment is less than normal and induced investment is zero.

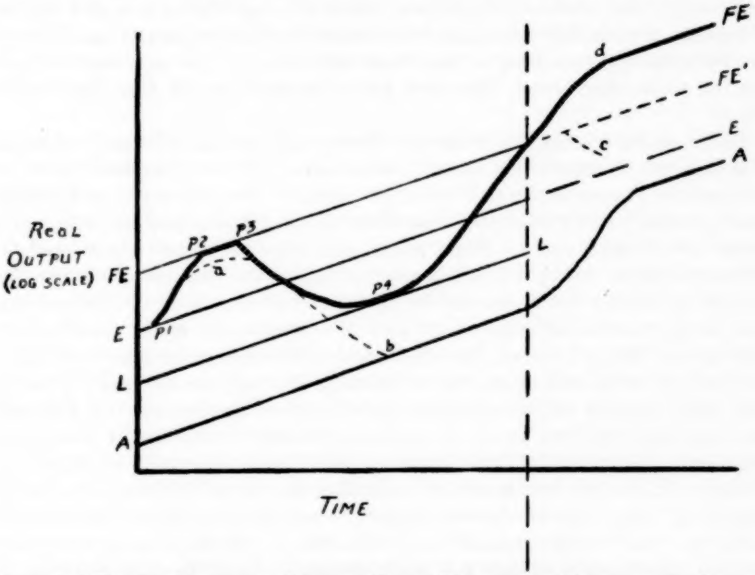

FIGURE 2. A TYPICAL ANALYSIS OF BUSINESS CYCLES MEASURED BY FLUCTUATIONS AROUND SOME KIND OF AN "EQUILIBRIUM" POSITION TO AFFORD A MEASURE OF "RELATIVE DEVIATIONS"

Remarks:

The output scale is a logarithm scale of output in order that a steady (geometric) growth might be indicated by a straight line.

FE—a full employment "ceiling" at which point output becomes inelastic in response to an increase in effective demand.

E—equilibrium path along which output increases by a uniform percentage from period to period. Therefore, the vertical distance between the actual output level and the "equilibrium" measures the relative deviation. Hicks presents four types:

- A divergence which returns to equilibrium (unlikely)
- An initial disturbance creating oscillations around the equilibrium of a minor amplitude (p. 1, a, p. 4)
- An explosive fluctuation (p. 1, p. 2, p. 3, b)
- A steady, relentless divergence (p. 4, d)

L—a depression equilibrium level. This is not a minimum point but one that suggests a general lower level.

A—"autonomous investment." A constant rate of growth is assumed by Hicks.

Once arrived at P4 on the slump equilibrium line, Hicks argues that recovery is inevitable as long as autonomous investment maintains an upward trend—a probable state of affairs due to political pressure for increased public investment.

It is significant, however, that once started Hicks contends that this recovery movement *cannot stop* at the equilibrium line (EE) because output is expanding more rapidly than the equilibrium rate and no restraints are exerted at EE. Thus, he is saying that after any divergence a return to equilibrium is a very remote possibility. Presumably this expansion continues until either output again bumps the full employment ceiling or monetary restraints stop the expansion short of the full employment level. Therefore, let us examine possible monetary limitations.

Hicks readily admits that monetary checks may restrain a boom or alleviate a slump, but he argues that one cannot assume that such restraints should or will operate at exactly the right level. For instance, the inelasticity of the monetary system might curtail the boom short of the full employment ceiling or a delay in instituting controls might permit inflation after output has reached the full employment ceiling. He points out that lags in the response of the banking system to changes in the demand for credit, as well as lags on the demand side due to imperfect knowledge on the part of entrepreneurs might contribute to this state of affairs. Or again, the considerable differences in the sensitivity of the several rates of interest might lead to difficulty. Not only are the effects of monetary policy smaller and slower when applied to the long rate, but it is generally conceded that this long rate is the most important in the making of investment decisions. Consequently, Hicks assumes that modern systems of long term financing tend to generate monetary instability subject to little influence through monetary policy control devices. Indeed, when such monetary instability is added to "real" output instabilities, Hicks finds it difficult to assign monetary forces more than a secondary role as the determinants of the timing and amplitude of economic fluctuations.

Hicks then justifies his previous emphasis on "real forces," and argues that the full employment ceiling is always the expansion limit of "real" output, and that this depresses investment even though prices and wages continue to rise. In fact, he would maintain that differential scarcities would frequently create just such a situation. For instance, in the peacetime boom, investment good prices rise faster than consumption good prices, yet the output of consumption goods rises more rapidly in the later stages of the boom and might well generate inflation when it hits the full employment ceiling. In war periods, however, an early consumption good ceiling may be imposed by the shortage of consumption goods, which would tend to generate rapid increases in consumption good prices, and, when coupled with government orders, would tend to stimulate investment, prolong the boom, and inflation might occur in the early stages of the boom.

Actually, Hicks deliberately delays introducing any analysis of monetary forces until he has constructed the main features of cycles in which only "real" forces were the necessary and sufficient variables. Thus he is able to classify monetary forces as important but secondary factors.

Curiously enough, after releasing this theory of inevitable fluctuations, Hicks says little about which of the forces, real or monetary, he deems both significant determinants and subject to human control. He contents himself with presenting

a list of three broad, alternative policies. First, one can accept as foreordained those real fluctuations magnified by monetary instability. Second, one can strive for a full employment economy and tread the narrow path between unemployment and inflation. Finally, Hicks favors a program of monetary reform combined with moderate public investment and controls to dampen but not eliminate entirely these real economic fluctuations; a rather inconsistent and disappointing conclusion.

Turning from this brief summary of Hicks theory of the trade cycle, I should like to raise several issues which may or may not be classed as critical. Certain of these questions concern methodology while others consider far-reaching implications.

On the methodological side, it appears that Hicks has taken two steps forward and at least one step backward. It would seem that his use of a definite period analysis permits a more dynamic approach than that afforded by the statics of Keynes. From a purely explanatory point of view, such emphasis on the process of adjustment is justified. Admittedly, however, the period under consideration is of little practical use, since statistical recording is not so set up. On the other hand, a similar view can be taken of the period implied in the Keynesian theory. Secondly, the emphasis on the creation and absorption of "real output" appears to permit an improved capital theory and a better explanation of the private investment problem. Indeed, one may again compare Keynes and Hicks at this point. While Keynes assumed that public investment was needed, he ignored possible effects of such investment on output and on the accelerator operating thru stocks rather than money flows. On the other hand, Hicks argues that induced investment is more variable than autonomous investment, neglecting the possibility of a highly sensitive or volatile autonomous investment occasioned by counter-cyclical government monetary and fiscal policy. It is this neglect of controlled autonomous investment as a possible factor of great significance that lies behind his rather pessimistic attitude concerning economic fluctuations.

The backward step referred to above was Hicks' use of an equilibrium analysis of unwieldy type. It is not the short-run equilibrium of savings and investment posited by Keynes, but something of a longer run level best labeled as the "normal" output and rate of growth. In addition, it must be emphasized that the several conditions of this equilibrium requires an economy to achieve numerous balances—perhaps more numerous than those stipulated by Hicks. This procedure raises several important questions. While fundamentally the concept of equilibrium embodies the idea of approximate equality of supply and demand, one must remember that this can happen temporarily at various levels of prices, production and employment. Permanent equilibrium implies complete adjustment among costs, prices and profits, or, even more basic, some balance between the supply and demand for productive forces, particularly labor. Even this is not enough, for conceivably such a balance (as during the 1930's) could be achieved only at production levels entailing an intolerable volume of unemployment.

Stability of production, even progressive stability of production, also requires

balance between the portions of income spent on consumption and income saved, and this introduces the question of income distribution. On the other hand, if only all savings were automatically invested total demand for goods might equal production; unfortunately this does not happen automatically. Voluntary savings frequently are supplemented by bank credit creations, governments borrow or repay debts, and speculative markets may absorb money in sales for past rather than current production. Thus, temporary discrepancies between ex-ante savings and investment might be important and might last over more than one cycle.

Another requisite for the dampening of cumulative movements is a fairly stable credit system to keep discrepancies between savings and investment within tolerable bounds. Bank policies, however, affect only the supply side, and perhaps the problem of regulating the demand side is one of regulating the expansion of production, an extremely doubtful possibility in our business system. Furthermore, demanders of credit influence the total in an indeterminate manner through variations in their use of credit.

In other words, stability boils down to a balance between expanding productive power and the community's absorption power, plus such an amount and distribution of purchasing power as to make the absorption demand effective. But perhaps this is enough to convince one that equilibrium in the fullest sense, equivalent to economic stabilization, is an unattainable ideal. Indeed, in an economy rapidly expanding at different rates of speed in its various constituent parts it is possible that the equilibrium concept involves mutually inconsistent requirements. I am sure that Hicks recognized these problems when he stated his equilibrium conditions depending upon a pattern of constant proportions of the various components to output. On the other hand, one can still argue that perhaps it is this unattainability that makes Hicks so pessimistic, and it may well be that the usefulness of such a concept can be seriously questioned.

Being a pattern of separate balances, Hicks' progressive equilibrium is useful only in explanation. Furthermore, if the number and complexity of the component balances required to achieve this state are so great, does such a concept serve, even in explanation, as well as would his concept of the full-employment ceiling. The full-employment ceiling could be used as a more readily defined guidepost from which to measure relative deviations, and at the same time would have more real social and economic meaning than the statistical normal.

But let us raise even more far-reaching questions. It would seem that the ultimate purpose of cycle studies is to devise methods of improving conditions, as well as of determining the objectives of such improvements. But can there be a *single* objective influencing all such studies. The welfare objective of full employment has been stressed by social scientists in recent years. At the same time stability of output at reasonably high levels (but with a proper degree of play) has apparently been demanded by the technology of heavy industry and an exchange economy. Others favor the immortality of existent institutions and legal patterns. It would seem obvious that explanations as well as control policies evolve from the underlying objectives. Some deplore, others accept, fluctuations.

Perhaps one might criticize Hicks for submerging his basic objective in his explanation. As mentioned above, he tends to ignore autonomous investment by assigning it a constantly proportionate role to output. This implies a business structure of the pre-1930 variety. But obviously, many writers posit controlled fluctuations in public investment as desirable and permanent features of our economy. Given a sensitive, controlled autonomous investment, is Hicks right in assuming a violent, inherently unstable pattern in actual output? Is there something in the technology of the productive process antagonistic to reasonable short-run stability at full employment or some other level of output? Or can one explain Hicks' insistence upon inherent fluctuations as an attempt to preserve the present business system? If the present system should be subjected to institutional and cultural modifications designed to correct maldistribution of output, time lags and the dislocations caused by innovations, would fluctuations tend to disappear? Is it possible that an economy can never be dynamic and relatively stable at the same time under any type of economic or business system? Would institutional rigidities and lack of knowledge and mobility preclude the necessary adjustments? One can argue that answers to such questions have yet to be found. Certainly these are questions that are difficult to treat empirically using data gleaned from the existent system; indeed, change would have to be on a trial and error basis in the future. Perhaps Hicks cannot be blamed for not answering these questions, but he may be criticized for ignoring these possibilities.

CONCLUSION

Despite the criticisms mentioned, the formal material in Hicks' theory of the trade cycle represents a contribution that has not been adequately recognized. One might even think that the writings of Lord Keynes have so dominated economic thinking that books on fluctuations by men of even Hicks' distinction have relatively little impact. Therefore, let us summarize the important ideas advanced by Hicks. He has attacked the extremely difficult problem of change within the existent business system and has sought to isolate causal factors whose presence and behavior have made a vital difference in the course of business prosperity and depression. He rightly has stressed the real output-induced investment ratio as a key factor rooted in modern technology which is ever-present and exerting influence of considerable regularity and consistency. Finally, he has incorporated monetary forces as secondary factors, thus emphasizing technological limitations placed on the efficacy of monetary control policies and pin-pointing the major problems faced by those advocating fiscal controls and functional finance.

Hicks' deductive approach also possesses much justification. Statistical records, although improving in quantity and applicability, still are too incomplete to test all principal theories. Furthermore, it is difficult to establish causal importance in a bare record of a sequence of events. No two cycles are exactly alike and even similarities are merely records in connection with a particular pattern of other internal and external factors. Armchair theorists are still needed to

analyze those factors not always present or whose behavior varies widely from cycle to cycle.

The major shortcoming of most empirical investigations and formal hypotheses, however, is the rather impersonal and mechanical relationships considered. Frequently, there is little in such descriptive material to aid social scientists in making necessary value judgments. In short, the problem of proper objectives of economic activity still remains. Until this problem is studied and resolved, one has a poor basis for policy formulation. Thus policies tend to reflect expedients dictated by short-run circumstances. Descriptive theory and statistical material are invaluable as starting points for such value judgments, but can hardly serve as end products. This little book, therefore, should challenge students of the field to engage in constructive thinking about objectives of economic analysis, and this would seem to require a more fundamental amalgamation of economics, engineering, cultural anthropology, sociology and psychology. Not until then will the questions raised in this paper be answerable.

ALTERNATIVE STANDARDS OF TAXABLE EXCESS PROFITS

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The history of excess profits taxation in the United States is marked by criticism, voluminous and cogent, but for the most part, unconstructive. Every facet of the tax has been subjected to attack, but few suggestions for fundamental improvement have been forthcoming. The purpose of this paper is to propose certain changes in the excess profits tax that would eliminate its more grievous faults and provide a tax that is less arbitrary and fortuitous.

A consideration of the purpose of excess profits taxation reveals the area in which change is likely to be most efficacious. The profits tax is a fiscal instrument for preventing and penalizing windfall gains and wartime profiteering, which often appear as twin results of the necessary shifts incident to the adaptation of the economy to emergency conditions. Thus the basic purpose of excess profits taxation is not the provision of revenue, but the satisfaction of an ethical principle: that no one be allowed to reap excessive profits[1] as the result of a national emergency. In this light, the success or failure of the tax is contingent upon the accurate identification and measurement of the excessive profit of each firm.

The definition of excessive profits is given in the tax law by the provisions for computing the corporate net income that is exempt from the excess profits tax. That is, the portion of net income that is not taxable (commonly called the excess profits credit[2]) is "normal;" all income in excess of this amount is subject to the tax and, therefore, excessive. Historically, American excess profits taxes have employed two methods of computing this exemption or credit: the invested capital standard[3] and the average base-period earnings standard.

I. STANDARDS OF THE PRESENT TAX

The excess profits tax now on the statute book follows this precedent and defines excessive profits in terms of either capital investment or average earnings, whichever results in the lighter burder upon the individual firm. In order to provide a yardstick for appraising the alternative standards to be proposed, a brief discussion of the standards of the present tax law will be given.

The Invested Capital Standard. The invested capital standard provides an excess profits credit equal to twelve per cent of the first five million, ten per cent of the second five million, and eight per cent of all in excess of ten million dollars

[1] For the purposes of this paper, excessive profit will be used to indicate that income the receipt of which will not call forth further use of productive factors.

[2] The excess profits credit is the amount of corporate net income exempt from the excess profits tax. Thus the deduction of the excess profits credit from net income determines the taxable excess profits.

[3] "Standard" will be used to denote a method or group of provisions for computing the excess profits credit.

of invested capital. All income above that which results from the application of this set of rates to invested capital is excessive and subject to the tax. Thus the definition of excessive profits approximates the public utility concept of a fair return upon fair value. The "fair return" in this case is determined by the set of rates provided in the tax law. The method of computing "fair value" is also stipulated.[4]

The shortcomings of the investment standard as a measure of excessive profits have been pointed out by numerous fiscal authorities. In the first place, it is charged that the invested capital standard tends to be highly arbitrary, in as much as it stipulates the rates of return which are applied to sums of invested capital that have entirely different significance for different types of businesses. For example, the use of this standard by a so-called capital-using firm might result in a credit that is adequate, or even too great. On the other hand, it is quite probable that firms in a labor-using industry will find that this standard subjects more than its truly excessive profits to the tax. Furthermore, the invested capital standard makes no allowance for variations in the degree of risk, corporate size, income stability, and the relative importance of capital as a productive factor. For these reasons, therefore, it is purely fortuitous if the use of the capital investment standard results in an accurate identification and measurement of excessive profits.

The Average Earnings Method. The second method of computing the excess profits credit is the average base-period earnings standard. This method provides an exemption equal to seventy-five per cent of the average net income for the three most profitable years in the period 1946–49. In addition, a return of twelve per cent is allowed on capital invested after the base period. Thus excessive profit is defined as the amount by which the net income of the given year exceeds that of some previous period deemed to be normal.

Upon examination, the average earnings standard proves to be as indefensible as the invested capital standard. One defect of this standard is that it fails to consider the fact that, in respect to a given firm, the relative contributions of the various productive factors may change after the base period. Secondly, it discriminates against those firms which are in a position to expand their production without additional capital investment. Thirdly, it does not place the greatest relative burden upon firms with the greatest relative ability to bear the tax, since base-period profiteering and windfall gains lay the foundation for relatively larger excess profits credits. Finally, its use will cause the excess profits tax to become simply an income increment tax[5] if the price level rises after the base period.[6]

[4] The present law provides two methods of computing invested capital: the asset method and the historical capital method. The essential differences lie in the treatment of losses and capital investment made subsequent to the base period.

[5] An income increment tax is a tax that falls, not upon excessive profit, but merely upon any increase in absolute amount of dollar profits (in this case, over the average base-period profits).

[6] The writer is indebted to Professor Clarence Heer for this succinct critique of the average earnings method.

The objections to these two standards are rather persuasive. But given an emergency condition, and the concomitant maladjustment in demand and supply relationships, there is a definite need for some tax weapon that will parry the twin thrusts of windfall gain and profiteering. Therefore the task is patent: the selection of a practicable method of measuring excessive profits that will satisfy the relevant ethical principles, while concurrently leaving inviolate the economic sanctity of that income necessary to call forth further use of productive factors.

The balance of this paper will be devoted to a discussion of four alternative standards of excessiveness, each of which is predicated upon base-period ratios of net profits to other crucial business data.

II. THE INCOME-PAYROLL RATIO STANDARD

An alternative standard which has been advocated by some is the income-payroll ratio standard. According to this standard, a corporation's excess profits credit for any given year is computed as follows: the firm determines its annual base-period net income and annual base-period payrolls. A ratio of income to payrolls is computed for each year, and an average of the annual ratios taken. The result of this process is the average base-period income-payroll ratio. To determine the excess profits credit for the taxable year in question, the total payroll and the net income for that year are ascertained. The average base-period ratio, applied to the current annual wage payments, determines the amount of income that is exempt from the excess profits tax (i.e., the excess profits credit). The remaining income constitutes the excessive profit as defined by this standard: that increment in income (over the base-period income) not accompanied by proportionate increases in either the number of labor units employed or payment per unit used. This concept of excessiveness contains numerous improvements over the present methods.

Production, in the last analysis, is nothing more than expenditure of human effort. Therefore, any expansion of production to meet the demands of emergency rearmament must necessarily be accompanied by an increase in effort expended. If increased production is paralleled by an increase in the number of employees, an increase in return to those employed, or a combination of the two, there is justification for a proportionate increase in the non-taxable return going to the entrepreneur. In order to allow this increase for the entrepreneur, it is necessary to permit a tax-free expansion in absolute profit (over the base-period average). The income-payroll ratio standard realizes this objective, i.e., it allows an increase in profits exempt from tax liability in proportion (the average base-period ratio) to the increase in wage and salary payments.

A further advantage of this standard inheres in the fact that the absolute profit of the base period is no longer the relevant consideration—the ratio of profits to payrolls is the crucial factor. This produces benefits in two areas. In the first place, to the extent that wages increase proportionately with the price level,[7] the danger of the excess profits tax becoming simply an income increment

[7] This is approximately the criterion presently used by the Wage Stabilization Board.

tax is obviated. If an increase in prices is accompanied by an increase in wage payments, the excess profits credit increases in like manner. This standard, therefore, tends to hold constant not the absolute amount of profit, but the purchasing power of that profit.[8]

Secondly, to the extent that additional labor and more units of the necessary co-operating factors are available, there is less tendency for the tax to inhibit the expansion of production. This is especially pertinent as regards corporations that operated at less than optimum during the base period. If such a firm expands production, it does so by the addition of variable productive factors (e.g., labor), thereby increasing its wage payments and its excess profit credit.

Without being captious, however, one can readily perceive several objections to the income-payroll standard. Space prohibits a detailed discussion of each, but the reader can easily follow the line of reasoning which leads to each defect.

As was mentioned in criticism of the invested capital standard of the present tax law, no measure of excessiveness that concentrates on one factor of production, to the exclusion of the others, can be considered adequate. The fact that other productive factors are considered when the ratio of net profit to payrolls is determined constitutes a mitigating element; nevertheless, primary emphasis is still placed upon a single productive factor. Secondly, a post-base-period increase in efficiency of operation is penalized by such a standard. By definition, improvement of efficiency is an increase in output (profits) without a commensurate increase in productive agents employed (costs). Increased efficiency, therefore, results in greater profits, unaccompanied by a proportionate increase in the excess profits credit.

Thirdly, the payroll ratio method tends to inhibit expansion of production on the part of those firms which stand in a position to expand via additional capital outlay. Such a corporation experiences an increase in profits, but no increase in payrolls. Therefore, its excess profits credit remains unchanged, the increase being taxed as excessive. In this case, the standard tends to weight management's decision in favor of expansion by addition of labor, at a time when labor is likely to be in short supply.

A standard based upon the profit-payroll ratio would capture windfall gain and either prevent or penalize profiteering that arises subsequent to the base period. As in the case of the average earnings standard of the present tax, however, the pre-emergency profiteer may continue to reap excessive gain with impunity. On balance, then, the income-payroll ratio standard affords a more accurate identification and measurement of excessive profits than do the standards of the present tax law. On the other hand, it is also subject to serious defects, which render nugatory most of its advantages.

III. THE INCOME-INVESTMENT RATIO STANDARD

A second alternative standard which might be used is a base-period ratio of net profits to invested capital. This standard involves substantially the same

[8] This advantage applies equally to all of the alternatives discussed; therefore, it will not be repeated in connection with each separate method.

computation process as that described for the preceding ratio standard. The annual rates of return on invested capital during the base-period years are computed; the average of these annual rates is the rate of return allowed on invested capital in the taxable year in question.

The operation of an income-investment standard is similar to that of the invested capital standard currently used, and the definition of excessive profit is the same: all net income in excess of a fair return upon fair value. In this case, however, the fair return is defined as the rate of return which was averaged by each corporation in the base years. The income-investment ratio method and its concept of excessiveness represent improvements over the present standards in several areas.

Since a maximum rate of return is not stipulated, there is no discrimination in favor of those industries classified as capital-using. Furthermore, the base-period income-capital ratio allows for the necessary variability in the rate of return among industries of inherently different nature. Both of these advantages stem from the fact that the allowable rate is based upon each firm's individual business experience, rather than being a uniform rate established alike for all enterprises. Just as in the case of the income-payroll standard, however, this standard places primary emphasis upon one factor of production and tends to penalize improvements in efficiency of operation effected subsequent to the base period.

Under the base-period rate of return method of measuring excessive profit, windfall gain, realized after the base years, is subject to excess profits taxation and post-base-period profiteering penalized. Again, however, the exaggerated income of the pre-emergency profiteer and monopolist forms the basis of enlarged excess profits credits, thereby serving to entrench their positions rather than penalize them. In summary, this standard offers a more accurate method of identifying and measuring excessive profit than either of the currently employed standards. On the other hand, the measure is not sufficiently accurate to eliminate many of the inequities which can result from an inadequate concept of excessiveness.

A consolidation of the two alternatives just discussed eliminates many of the adverse effects that either might have if used alone. There are several conceivable combinations, any one of which decreases the emphasis placed upon a single productive factor. The primary objection is that each of the combinations penalize efficiency, just as the income-payroll and the income-investment ratio methods penalize improved efficiency when used alone.

IV. THE INCOME-SALES RATIO METHOD

A third alternative standard can be educed from the base-period ratio of net profits to gross sales. Computation of the excess profits credit by use of the income-sales ratio method does not differ essentially from the procedure employed in connection with the income-payroll method. The average ratio of net income to gross sales for the base-period years is first determined. This ratio, applied to the gross sales of the given tax year, represents the allowable excess profits credit for that year.

The ratio of net income to gross sales expressed in percentages (i.e., net in-

come divided by gross sales) is the profit margin. Therefore, the measure of excessive profit inherent in this standard is based upon each firm's base-period profit margin: any increase in income attributable to an increase in the profit margin (over the average base-period margin) is defined as excessive. More specifically, absolute profits may expand indefinitely without becoming subject to excess profits taxation, so long as gross sales increase commensurately.

Tacit in this concept of excessiveness is the acceptance of the base-period profit margin as just and adequate. On the whole, this assumption contains a marked element of truth. In a perfectly competitive industry in the long-run, each firm will have the same profit margin, with allowance for necessary deviations attributable to variations in such items as risk, rate of turnover, and cost of loans. Furthermore, by definition of long-run equilibrium in perfect competition, each firm is earning the "going rate" on its investment, no more or less. Therefore, the assumption would be legitimate in this case.

The above, however, is a limited case, for perfect competition does not pervade the American economy. Product and service differentiation have become the usual, rather than the exceptional, case. But even in an industry group characterized by differentiation, inter-firm competition tends to be rather keen. It is probable that variations in the profit margin between such firms reflect crucial differences in basic conditions. Presumably, therefore, the profit margins of firms in an industry characterized by monopolistic competition will be adequate, but not excessive in a majority of the cases.[9]

The case of monopoly[10] is quite different. It is likely that the profit margin of a monopolist would be greater than necessary,[11] consequently reflecting some degree of excessiveness. Therefore, the income-sales ratio standard tends to give relatively favorable treatment to monopolies (as does any standard which refers to the profit experience of a preceding period as normal). For types other than monopoly, one might reasonably conclude that the base-period experience, in a preponderance of the cases, approximates a just and adequate profit margin.

So the crucial consideration becomes, will the base-period profit margin afford a more accurate measure of excessive profit than previously suggested standards? In essaying an answer, consideration must be given to the advantages and shortcomings of this method.

Advantages of the Income-Sales Method. As obtains in the case of the other alternatives discussed, the excess profits tax does not become simply an income increment tax if the income-sales standard is used. So long as a firm's percentage mark-ups remain unchanged, an increase in dollar profits does not subject the firm to excess profits taxation, for its gross sales increase commensurately. On

[9] The orthodox analysis of monopolistic competition shows that equilibrium will be reached at a point where the demand curve is tangent to the average total cost curve. Due to the negative slope of the demand curve, this point is to the left of minimum average cost. This is a no-profit position (i.e., no pure or economic profit); should such obtain in practice, the profit margin would definitely not be excessive.

[10] This discussion is also applicable to oligopoly.

[11] A criterion of "necessity" that would be adequate: does it motivate further use of productive factors?

the other hand, if an increase in profit is attributable to an increase in mark-ups, it may reasonably be presumed that the firm has availed itself of the maladjustments of the emergency period in order to increase its profit margin. If this is the case, social justice demands that the firm be penalized.

A second advantage is that the standard under consideration tends to make allowance for variations in risk, size, and stability of income, since these factors are influential in the determination of profit margins. In this manner, the profits-sales ratio escapes one of the more cogent arguments advanced against the present invested capital standard.

Thirdly, if the income-sales standard is employed, the inequitable discrimination incident to the use of the present standards is removed. It will, for instance, estop the discriminatory treatment given firms which are able to expand production, and hence net income, without additional capital investment. In this case, if profit per unit remains constant, there are proportionate increases in gross sales and the excess profits credit. Therefore, an increment in income attributable solely to an increase in the use of variable productive agents is not liable to the profits tax.

The gross sales ratio method also tends to place the capital-using and labor-using industries on an equal basis, for each of these factors enters into the determination of the profit margin. Moreover, the discrimination in favor of the large firm as against the small is ended. As long as the small firm has an adequate base-period income-sales ratio,[12] it will have an adequate excess profits credit. The same consideration applies to growth corporations, for it may be presumed that corporations experiencing an increase in size and profit during the base years have favorable profits-sales ratios.

A fourth advantage lies in the fact that the use of the income-sales ratio involves less arbitrariness than the present standards. No stipulated rates of return applicable to all firms are necessitated. No specification of the amount of borrowed capital to be included in invested capital need be made. No percentage of average base-period net income to be taken for the excess profits credit is required. In short, this standard is predicated upon crucial business data of the individual firm rather than necessarily uniform legislative stipulations, as obtains in the case of the present standards.

Furthermore, the base-period income-sales ratio method involves less administrative difficulty than the presently employed standards. Gross sales data are annually recorded in federal corporation income tax returns, and the term is well defined by common usage. Also, to the extent that this method provides a more equitable measure of excessive profits, one may anticipate fewer appeals for relief, more accurate returns, and less litigation.

Sixthly, a tax employing this ratio and imposed at a high marginal rate might induce voluntary reduction in price. This phenomenon depends upon the elasticity of demand confronting the individual firm.[13] In general, the more elastic

[12] Presumably this would be true of firms that continued operation.

[13] It would be needlessly repetitive to recite the theoretical proof that production will only go forward in the elastic regions of the demand curve.

the demand schedule, the greater is the likelihood of price reductions. Thus a firm confronted with an elastic demand schedule, and having taxable excess profits (subject to the high marginal rate), might seek to reduce its tax liability by decreasing the unit price of its commodity, hoping thereby to expand the volume of sales and increase non-taxable profits on the basis of its allowable profit margin.

Defects in the Income-Sales Standard. The foregoing enumeration of advantages that accrue from the use of the income-sales standard is rather persuasive. However, this method is subject to two serious shortcomings. Under the gross sales ratio method, the excess profits credit of a firm is insulated from any fluctuations in the cost of raw materials (or any materials purchased from other entrepreneurs). This insulation serves to penalize improved efficiency in one very significant managerial function—purchasing. Efficiency or inefficiency of operation can hinge upon intelligent purchasing policies, no less than upon other managerial policies.

This particular disadvantage is illustrated in Tables 1 and 2. Each example demonstrates the effect of both an increase and a decrease in the cost of materials purchased from other entrepreneurs. In Table 1, it is assumed that gross sales remain constant, while in Table 2 gross sales are changed by an amount equal to the change in costs. In either case, it is obvious that under the gross sales method, and with a one hundred per cent excess profits tax, a firm may allow its material cost to increase without suffering any diminution in net profit after taxes. Conversely, if the firm succeeds in reducing material costs, it does not profit thereby, the government taxing the saving as excessive profit.

If this decrease in cost is attributable to more efficient managerial policy, certainly the firm which accomplishes it deserves some share of the saving. Contrariwise, if an increase in the cost of materials reflects lax control policies, the firm responsible for such laxness should suffer a penalty tax.

The second disadvantage inherent in the gross sales method is also attributable to the divorce of material cost from the excess profits credit. Under this standard, a shift in production to the output of more expensive lines of goods improves the profits-after-tax position of a firm. In this case, both gross sales and raw material cost increase. Since, however, the latter does not influence the excess profits credit, a firm can expand its non-taxable profits by such action.

Treatment of Profiteering and Windfall Gain. It might appear that windfall gains are treated more leniently by the income-sales standard than the average earnings method, since sales (and, consequently, the tax credit) must increase if a profit increment is realized. Upon closer consideration, however, this does not materialize as a valid criticism, since the base-period profit margin should be allowed upon those sales made in order to realize windfall gains. Otherwise, a relative profit loss is incurred. A more accurate statement in regard to the treatment given windfalls by this standard is that the portion of income representing true, immediate windfall gain is subjected to the profits tax.

When applied to pre-emergency profiteers, the income-sales ratio method has the same weakness found in all other base-period methods. Patently, such

corporations have an excessive base-period profit margin, relative to similar firms which did not profiteer. Thus, the past activity of these firms forms the groundwork for continued unpenalized profiteering. As has been said before, however, a tax penalty will be imposed upon profiteering originating subsequent to the base years.

TABLE 1

Illustration of Effect of Change in Material Costs upon Excess Profits Credit, Gross Sales Remaining Constant

	GIVEN NORMAL	INCREASE IN MATERIAL COST	DECREASE IN MATERIAL COST
Gross Sales	$1,000,000	$1,000,000	$1,000,000
Purchases from other entrepreneurs	350,000	375,000	325,000
Labor Cost	500,000	500,000	500,000
Other Internal Cost	100,000	100,000	100,000
Total Cost of Goods Sold	950,000	975,000	925,000
Value Added	650,000	625,000	675,000
Net Profit	50,000	25,000	75,000
Ratio, NP/GS	1–20		
Ratio, NP/VA	1–13		
Excess Profits Credit, NP/GS	50,000	50,000	50,000
Excess Profits Credit, NP/VA	50,000	47,500	51,300

TABLE 2

Illustration of Effect of Change in Material Costs upon Excess Profits Credit, Gross Sales Varying with Cost

	GIVEN NORMAL	INCREASE IN MATERIAL COST	DECREASE IN MATERIAL COST
Gross Sales	$1,000,000	$1,025,000	$975,000
Purchases from other entrepreneurs	350,000	375,000	325,000
Labor Cost	500,000	500,000	500,000
Other Internal Costs	100,000	100,000	100,000
Total Cost of Goods Sold	950,000	975,000	925,000
Value Added	650,000	650,000	650,000
Net Profit	50,000	50,000	50,000
Ratio, NP/GS	1–20		
Ratio, NP/VA	1–13		
Excess Profits Credit, NP/GS	50,000	51,250	48,750
Excess Profits Credit, NP/VA	50,000	50,000	50,000

A possible method of eliminating the profiteering which has occurred in the base years (if it has been on the part of one firm within an industry, and not industry wide) is to allow each firm the industry-average base-period ratio. This gives more favorable treatment to those firms that were below average in the base period, but there is a counter-balancing element to which consideration should be given. This provision penalizes those firms which enjoyed larger-than-average base-period profit margins. To the extent that the higher margins have resulted from more efficient techniques of production and distribution or from

superior products which consumers have endorsed by their dollar votes, the firms falling in this category deserve their higher profit margins.

Before a definite conclusion upon this provision can be reached, a thorough investigation, on the basis of complete data from all firms in an industry, is necessary. In the absence of such, it seems that, from the standpoint of equity, differential profit margins should be tolerated lest efficiency be penalized.

In summary, on the basis of its many advantages over other standards and its more equitable treatment of windfall gains and post-base-period profiteering, one must conclude that the gross sales ratio standard affords a more adequate identification and measurement of excessive profits than the standards previously considered.

V. THE INCOME-VALUE ADDED STANDARD

The final alternative standard which will be discussed is one based upon a ratio of net profits to value added.[14] Under the income-value added ratio method, the excess profits credit of each corporation is computed by multiplying the dollar amount of its value added for the current taxable year by its average base-period ratio of net profits to value added.

There is a marked similarity between the income-value added ratio and the income-gross sales ratio; the significant difference is readily grasped, however, when it is recalled that value added is equal to gross sales less purchases from other entrepreneurs. Further, the definition of excessive profit inherent in each of them is much the same. As regards the value added ratio, excess profit means any income increases not accompanied by proportionate increases in labor and other costs, but excluding the cost of materials and services purchased from other business enterprises.

In general, the income-value added ratio standard shares all of the advantages of the income-sales method, but it is not subject to the two crucial defects found in the sales method. As illustrated in Tables 1 and 2, when the value added standard is employed, an increase in the cost of materials, unaccompanied by a corresponding increase in sales price of the product, results in a decrease in the excess profits credit, thereby penalizing the firm. If the sales price increases by an amount equal to the increment in material cost, the excess profits credit remains unchanged. Thus, the firm, although not penalized, does not profit as a result of an increase in the cost of raw materials. Conversely, if the material cost decreases without a corresponding decrease in sales price, the value added method will result in an increase in the excess profits credit, allowing the firm some of the savings resulting from greater efficiency in that area.

The same general consideration obtains as regards the shift in production to the output of more expensive commodities. The excess profits credit under the value added method does not increase, because the value added remains unchanged, assuming that gross sales increase by the same amount as raw materials. Therefore, the profits-after-tax position of the firm is not ameliorated.

[14] Value added equals gross sales less purchases from other entrepreneurs.

For these reasons, one must adjudge the value added ratio standard a superior method for measuring and identifying the excessive profit. Therefore, it may be anticipated that the use of this standard, in lieu of the methods of the present tax law, would remove many of the objections to excess profits taxation, especially those which are fundamentally objections to the pernicious effects that the tax can have when faulty measures of excessiveness are employed. In addition, the use of the income-value added standard should result in greater equity, less arbitrariness, and a more satisfactory realization of the ethical principles underlying excess profits taxation.

VI. SUMMARY

Any tax which is employed intermittently over a period of years and which becomes the subject of unified group opposition must necessarily fall heir to a diverse assortment of criticisms. The excess profits tax is no exception to this rule. Yet, given a war or an emergency period which threatens to disrupt normal supply and demand relationships, there is a clear need for some tax instrument designed to siphon the surplus income from the (usually) deepening pool of profits. If some measure of excessiveness could be found which would accomplish this, and yet leave an amount of profit sufficient to motivate adjustment and expansion, the writer would give unqualified endorsement to excess profits taxation.

Such a standard, to be sure, is ideal. A *perfect* measure of excessiveness has not been discovered in this study. However, all things considered, it is the opinion of the writer that a standard based upon the ratio of net profits to value added represents the closest practicable approximation of this ideal standard.

JOHN R. COMMONS AND THE WELFARE STATE[1]

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Among American economists John R. Commons is generally recognized as an exponent of institutional economics. While in some of its features Commons' institutionalism closely resembles Veblen's, it differs in fundamental respects from the theories of Veblen and the program of reform which these theories tended to support. Both Commons and Veblen were critical of the abstract-deductive method of the classical economists and thought an "experimental" or an "evolutionary" approach scientifically superior. Both considered political and economic laisser-faire ineffective in promoting general economic welfare and, therefore, favored direct intervention by a central authority and conscious or deliberate forms of economic cooperation. Veblen thought that maximum industrial efficiency and welfare required drastic reorganization of the economic system and his proposals to this end have a strongly Marxian flavor. Commons thought that the same objective could be achieved by widening the sphere of collective action of bargaining groups, such as the trade union and the business corporation, and at the same time expanding the economic powers of the state and federal legislatures. Commons spent his life promoting and drafting legislation on unemployment and accident insurance, on minimum wage and public utility regulation, studying changes in the laws as brought about by judicial decisions, and constructing economic theories to harmonize with these decisions from the standpoint of his conception of their relevance to a capitalism which he considered to be evolving from individualistic competition to collective organization and bargaining.[2]

[1] A paper read at the Twenty-first Annual Meeting of the Southern Economic Association on November 16, 1951.

Disciples and other admirers of Commons may object to this association of him with the modern welfare state. It is true of course that the "Welfare State" as typified in this country by the New Deal began fully to emerge only toward the end of Commons' life. It is also true that it is the idea of an "administrative state" which is projected in Commons' theories and programs. Still there are good reasons for considering this administrative state as a prototype of the modern welfare state. As explained in this paper, the chief objective of Commons' administrative state is collective democracy. And he thought that this was also the goal of the New Deal. (See his "Communism and Collective Democracy," *The American Economic Review*, Vol. 25, 1935, p. 220.) While entertaining misgivings about the NRA, he seemed to think that on the whole the New Deal exemplified his own economic philosophy. "After thirty years I attempted to work my discovery of 1900 into a system of institutional economics. And now, after my retirement to my home, and after my book has gone to press, I am bewildered by the many alphabetical abbreviations under which the whole nation, through organized conflicting interests and a daring President, is *issuing and revising "codes"—my little "working rules" from the year 1900"* (Italics mine). J. R. Commons, *Myself*, New York, 1934, p. 73.

[2] A fuller appraisal of Commons' life and works would take into account the influences that seemed to have conditioned his thinking. Among these would be: (1) his Quaker-

The purpose of this paper is two-fold. It proposes, as the title suggests, to show that Commons' institutional economics sets forth principles and methods which serve as a foundation for a type of welfare state; and it proposes, further, to examine some of the issues the welfare state, as exemplified in Commons' writings, raises in connection with the problem of maintaining a free society. But first a word about the welfare state as a concept.

As currently used, the term, welfare state, carries with it the idea that as a matter both of political or moral principle and practical economic necessity the state has a direct responsibility for maintaining high levels of production and employment and for lessening economic inequality, the latter being looked upon as instrumental in increasing the effective freedom or power of those individuals and groups considered economically disadvantaged. In executing these responsibilities, the welfare state, according to its exponents, steers a middle course between the whirlpool of laisser-faire and the rock of full-fledged socialism requiring state ownership.[3] But I think it is difficult to draw a precise line between the welfare state and socialism.[4] In practice the exponents of the welfare state seem prepared to go any length in extending direct economic controls and the results of such controls appear to be indistinguishable from those that would follow outright socialization. None of the three movements or ideologies has a

Presbyterian religious and anti-slavery background; (2) the conceptualization of the frontier as a dynamic in American history by Frederick Jackson Turner, his senior colleague at the University of Wisconsin; (3) Henry C. Carey's protectionism; (4) Henry George's Single Tax; (5) the anti-big-business but interventionist program of mid-western Populism; (6) Samuel Gompers' philosophy of simon-pure trade-unionism, with its distrust of independent political action by organized labor; (7) the early studies on property and contract by his teacher, Richard Ely who sought to adapt ideas and policies of the German historical school to American conditions; and, (8) the empiricism of Charles Peirce.

[3] One writer in distinguishing the welfare state from socialism states that "the problems of the Welfare State spring from the attempt to provide everyone with the security of a basic minimum income; this can be provided without necessarily enforcing equality of income, without the nationalization of industry, and without expanding the degree of collectivism unavoidable in the day-to-day life of a community containing millions of people. The Welfare State, in short, is compatible with a Conservative Government in Britain and with either a Democratic or Republican Government in the United States." Mark Abrams, "The Welfare State," *Current Affairs*, No. 124, Jan. 20, 1951, p. 6. There is of course no reason why a Conservative Government in England or a Republican administration in the United States should as a matter of principle be less concerned with the problem of promoting general welfare than a socialist or labor government or a Democratic administration. But if British Conservatives and American Republicans adhered to the creed of traditional liberalism (or, in Henry Simons' language, a "free-market liberalism"), they would refuse to adopt some methods used by the Laborites and the Democrats to achieve welfare ends. The willingness of British Conservatives to follow the Labor Party's program of subsidies and price controls and the acceptance by the Republicans in this country of federal support of farm prices, rent control, and similar direct interventionist policies of the New Deal and the Fair Deal simply show the extent to which these parties have abandoned free-market liberalism for socialist-laborist interventionism.

[4] Democratic socialism, as espoused by Abba Lerner and James E. Meade, proposes to retain the free market mechanism. In this respect it does not differ from laisser-faire liberalism. See, for example, James E. Meade, *Planning and the Price Mechanism*, London, 1948. Whether it would be politically feasible for it to carry out this intention is another question.

monopoly in its concern over welfare problems. One of the serious distortions of historical fact is the view entertained by critics of the enterprise system that the program of economic and political laisser-faire has from its inception been indifferent to welfare objectives and that it is only in the very recent decades that laisser-faire economists have demonstrated interest in unemployment and other problems of economic insecurity. Those who still entertain this view should re-read not Marshall and Mill, or even Adam Smith, but Jeremy Bentham.[5]

From a purely normative standpoint the differences among the welfare state, socialism, and political and economic laisser-faire relate mainly to the question of means. As systems of thought and polity, all three are designed to promote freedom, equality, security, and an abundance of goods and services. But this general agreement respecting the goals of social policy does not preclude differences in the evaluation of the different ends with respect to each other. For example, advocates of laisser-faire seem more disposed than the exponents of the other systems to raise the question of how much equality or security is consistent with the maintenance of freedom and how far equality should be sacrificed for efficiency. Thus the really important differences, those concerning means, relate to the question of the use of the political power of the state in economic matters.[6] Laisser-faire would leave the determination of values or the prices of goods and services to the impersonal operation of the market mechanism. While opposing substitution of authority for the market in deciding these matters, laisser-faire would employ the political power of the state to effect rules of the game which are neutral to monopoly, both labor and enterprise, and which furnish the appropriate environment for the more or less automatic functioning of the economic system. On the other hand, the welfare state though as willing as laisser-faire to utilize indirect methods of fiscal and monetary policies assumes that the goals

[5] According to Bentham, "Maximizing universal security;—securing the existence of, and sufficiency of, the matter of subsistence for all members of the community;—maximizing the quantity of the matter of abundance in all its shapes;—securing the nearest approximation to absolute equality in the distribution of the matter of abundance, and other modifications of the matter of property; that is to say, the nearest approximation consistent with universal security, as above, for subsistence and maximization of the matter of abundance: by these denominations, or for shortness, by the several words *security*, *subsistence*, *abundance*, and *equality*, may be characterized the several specific ends, which in the character of means stand next in subordination to the all embracing end—the greatest happiness of the greatest number of the individuals belonging to the community in question." Pannomial Fragments, *The Works of Jeremy Bentham*, ed., John Bowring, Edinburgh, 1843, Vol. III, p. 211. Bentham thought that while the legislator should make abundance, subsistence, equality and security his object in the distribution of rights and obligations among the people there is nothing that he can do *directly* to achieve abundance and subsistence. The legislator may modify the distribution of abundance to promote greater equality. But this, Bentham insists, should be effected by taxation and not by interference with the market's determination of relative prices. He thinks that a modification of the distribution of abundance would under any circumstances conflict at some point with security and that when equality conflicts with security, equality should give way.

[6] But since the advocates of laisser-faire think that the preservation and extension of freedom require a division of labor between political authority and the market mechanism in effecting economic decisions, the question of means winds up being one of ends.

of welfare can be more fully realized only by direct intervention and controls over the market by the political authority.[7] But the more the program and policy of direct intervention is extended, the more necessary becomes the expansion of the administrative departments of government. In practice the welfare state tends to become the administrative state.

In the last three decades there has been a vast multiplication of administrative agencies and today they are considered as constituting a fourth branch of government. There should be no question about the challenge which these agencies in their day to day operations present to democratic government, individual freedom, and the enterprise system. It is, of course, inevitable that in a complex economic and social order progress will necessarily require some expansion of the economic functions of government and, accordingly, of administrative agencies to carry them out. But the question about which the laisser-faire economist is most concerned is not simply that of the numerical increase of the government's economic functions. It is the question of the kind and degree of authority which the legislative branch should delegate to the administrative and, also, of the proper safeguards against the abuse by the latter of the power granted to it. The laisser-faire economist[8] desires therefore that the laws which administrative agencies are to carry out be so framed that the chances for exercising discretionary authority are reduced to a minimum. In other words, at the national level the legislature should bind "administration by closely confining rules, enforceable by an independent judiciary."[9]

If, as previously stated, the welfare state tends in practice to become the

[7] This should not be taken to mean that there is agreement between them on the kind of monetary and fiscal policies which are appropriate in a free enterprise economy to maintain economic stability and a high level of employment. The difference between a Henry Simons and an Alvin Hansen comes to mind in this connection. See Simons, *Economic Policy for a Free Society*, Chicago, 1948, chapters viii, ix, and x. Also Milton Friedman, "Comments on Monetary Policy," *The Review of Economics and Statistics*, Vol. XXXIII, No. 3, August, 1951, and "A Fiscal and Monetary Framework for Economic Stability," *American Economic Review*, June, 1948; and, "Separate Note by Mr. [John D.] Clark upon Monetary and Credit Policy," *The Economic Report of the President*, Jan., 1952, pp. 142–44.

[8] Without being specific, I refer to economists of this generation who adhere to the liberal political and economic creed of Smith, Bentham, J. S. Mill, and Marshall. These economists most certainly do not subscribe to any philosophy of political do-nothing-ism with which the laisser-faire doctrine is erroneously associated in some public circles and, also, by some professional economists. I know of only one leading thinker among the 18th–19th century liberals who espoused laisser-faire in this sense. This was Herbert Spencer.

[9] Simons, *op. cit.*, p. 18. The proposal to curtail and circumscribe the powers of federal administrative agencies was criticised in the discussion following the reading of this paper. It was objected that to be effective instruments of public policy these agencies must necessarily exercise discretion in determining what the law actually is. The reply to this seems to be: (1) that the law and the rules under which the law is to be executed should be so clearly and simply defined by the legislature as to leave little doubt about their meaning; and, (2) that where this doubt arises it should be for the judiciary and not the administrative officials to resolve it. The question of the dangers presented by administrative rule-making and adjudication to individual freedom and government by law cannot be gone into in this place. For a discussion of the question by an eminent legal scholar see Dean Roscoe Pound's "Administrative Procedure Legislation: For the 'Minority Report,'" *The American Bar Association Journal*, Nov., 1941, pp. 664–78.

administrative state,[10] the writings of Commons should certainly be considered as contributing to the economic theory of such a state. In fact, Commons himself thought of his work in this manner. He contended that the administrative economics of the twentieth century based upon statistics and investigation departs radically on both the legal and economic sides from traditional economic theory of the nineteenth century which, according to him, is based upon dogma. He uses the majority and minority opinions of Justice Roberts and Justice Black in the case of the Agricultural Adjustment Act in 1936 to set forth some features of his administrative economics.

It will be recalled that the Agricultural Adjustment Act passed during the depression of the 30's was designed to raise the purchasing power of farmers by achieving "parity" or a "fair exchange value" between the prices of agricultural products and those of manufactured commodities.[11] To carry out the purpose of the Act the Secretary of Agriculture was authorized to determine when parity had been achieved for particular commodities and pursuant to the maintenance of parity was empowered to effect agreements with the farmers limiting output and acreage. The Act further provided: (1) that farmers signing these agreements were to receive benefit payments which were fair and reasonable in the judgment of the Secretary; and, (2) that these benefit payments were to be financed by a processing tax "levied, assessed and collected" by the Secretary of Agriculture at the first stage in the manufacture of agricultural products. This Act affords one of the best examples of the extremes in economic folly to which direct state intervention in the market goes in its attempt to promote income equality or to alleviate economic distress among certain special interest groups.

[10] In his comments Professor Gregor Sebba, of the University of Georgia, noted that every state is necessarily an administrative state and that the investigation of the problems of administrative agencies is the task of political science, not economics. But he is using the term administrative state in an entirely different sense from that of the paper. And, he could not mean that agencies like the Federal Reserve System, the NLRB, the Department of Commerce, and the RFC, to mention only a few, should be investigated by the political scientist rather than the economist. Certainly the state, whether the political order is one of "Natural Liberty" or Marxian socialism, must perform administrative as well as legislative functions. But this fact does not make it an "administrative state" in my meaning. My discussion of Commons' theories should make it clear that by "administrative state" I mean one in which the political authority sets up as a matter of deliberate policy various agencies as a means of equalizing the bargaining power between economic groups and of substituting administrative-decision-making for the market in the determination of relative values. The liberal-democratic state of a Bentham, Smith or Simons could adopt no such policy nor would its administrative agencies be clothed with such power.

[11] Professor Harlan L. McCracken, of Louisiana State University, expressed the view that political interference in the form, for example, of minimum wage legislation is necessary because the individual worker is weaker in bargaining strength than the employer. I am not sure whether he favors government support of agricultural prices, also, on the grounds that farmers are weak in bargaining power relative to other groups. I concur with Professor Nicholls in his observation that attempts to equalize bargaining power by price and wage controls usually result in strengthening the stronger rather than the weaker party. The question of unequal bargaining power is in fact a question of income inequalities and ought to be treated as such instead of as a special disability of particular economic interest groups calling for a political control of the market in their favor.

In his review of the arguments concerning the constitutionality of the Agricultural Adjustment Act Commons points out that both the majority and minority opinions turned upon the question of the use by the state of economic power as distinguished from the state's power of physical coercion. The question of judicial restraint upon the administrative agency to whom the exercise of the power was delegated was also considered. Commons notes that it was agreed in both the majority and the minority opinion that the use of such power by the federal government was coercive and that it was designed to alter values that the market would otherwise establish. Mr. Justice Roberts in speaking for the majority contended that the power might be used to coerce any individual or industrial group in favor of others which the legislature considered underprivileged. He denied but Mr. Justice Stone affirmed that the legislature could properly exercise such power under the constitution.

Commons takes the view that the elevation of Mr. Stone to Chief Justice and the veto by President Franklin Roosevelt of the Walter-Logan bill providing judicial restraints upon one administrative agency, but probably affecting all, signalized a reversal of the Roberts' position in jurisprudence and a significant change in public policy. The necessity, Commons contends, of the government using economic power directly on behalf of the unorganized to counter-balance the organized power of other classes became recognized as a necessary principle of public policy. And, he insists that this necessity arises from the "increased intensity of private use of economic power over individuals in the collective form of corporations, labor unions, cartels . . . and . . . by the closing of the world's frontiers against economic escape."[12] He contends: (1) that Justice Stone's reasoning in the Agricultural Adjustment Act case warrants the inference that he would refuse to interfere with administrative investigations and decisions; and, (2) that "the only ground of assurance that [an administrative agency] will have economic power in each case as it arises" is "the expectation that the Supreme Court and the inferior courts will follow the reasoning of Justice Stone rather than Justice Roberts, and refuse to interfere with . . . administrative investigations and decisions."[13] "This assurance," he concludes, "is, indeed, also the ground on which corporations and labor unions are able to exercise collective economic power. They are forbidden to use physical violence, but they have the assurance . . . that the courts will not use their own command of physical force to interfere with private organizations in their use of economic power, and that the courts will further use this same power to enforce their contracts or 'voluntary' agreements."[14] This interpretation and evaluation by Commons of the opinions of Messrs. Roberts and Stone in the Agricultural Adjustment Act case follow directly from his ideas concerning the dominant characteristics of the economy and the principles that generally govern economic activity.

For Commons "the dominant fact of social life" is not individual but collective action. His institutional economics, he informs us, is a study of such action. He defines an institution as "collective action in control, liberation, and expansion

[12] *The Economics of Collective Action*, New York, 1950, p. 214.
[13] *Ibid.*, p. 225. [14] *Ibid.*

of individual actions." Collective action may express itself in custom but when deliberately and formally organized it constitutes a "going concern" such as the trade union, the business corporation, the grange or farm lobby, or a political party. Going concerns operate according to working rules which come to be established by means of negotiation, bargaining, and agreement. Working rules govern the transactions between different going concerns and determine the rights, duties, and liberties of the individual members of each concern. Going concerns are governments, since "they are collective action in control of individual action through the use of sanctions." In the hierarchy of governments, the political state is supreme. It is the only concern or government which possesses real sovereignty, since its sanction rests upon a monopoly of the physical power of organized violence. But the state may also employ economic power as a sanction. The sanctions which lesser governments or going concerns may legitimately employ involve the use of economic power, which Commons defines as the power of scarcity. This power, he contends, is in the nature of the case coercive and yet consistent with liberty when exercised within limits fixed by the working rules of bargaining concerns, these rules being further limited by those decreed by the legislature, interpreted by the courts, and executed by administrative agencies.

As we have noted Commons thinks of economic power as the power of scarcity. In his formulation, the idea of scarcity is opposite to that of abundance and correlative with property. Both property and scarcity are made identical with conscious restrictions upon output. In Commons' definition property is the legal power to withhold, and, according to his reasoning, the nature of what is withheld depends upon how property is conceived, whether it is conceived as physical things or as intangible assets. In the 18th century common law conception property, we are told, consists of corporeal things and connotes the idea of holding for one's own use objects that are wanted but scarce. It was, Commons states, "holding" for self. But intangible property, the progeny of the corporation and the banking system, carries with it the idea of "withholding from others what they need but do not own." He concludes that the principle of corporeal property is expressed in the "individualistic idea of preventing trespass by non-owners" while that of intangible property is "the bargaining idea of two owners withholding release of ownership until a price or ratio of exchange is agreed upon." Thus according to Commons "ownership in its modern meaning of intangible property means power to *restrict* abundance in order to maintain prices; while the material things arise from the power to *increase* the abundance of things by efficiency in production, even in overproduction."[15] In other words, intangible property gives rise to what Commons calls "proprietary scarcity" enforced by the collective actions of business corporations and labor unions, but, ultimately, by the working rules of the sovereign power of the state.

The relationship which Commons posits between scarcity and intangible property is certainly misleading. It is based upon either a misapprehension or a perversion of the scarcity principle as commonly understood among profes-

[15] *Institutional Economics*, New York, 1934, p. 5.

sional economists. But be this as it may. The relationship as he conceives it accords with his distinction between producing and bargaining power and between wealth and assets. The idea that producing power and bargaining power are distinct is fundamental to Commons' theory which assumes that the economic system is dominated by monopolistic concerns and that intercourse between these concerns is effected by means of conscious bargaining. Given proprietary scarcity or the power to withhold, conflicts of interests between concerns inevitably arise, but there always exist the fact of dependence and the necessity for order. Conflict is resolved and order achieved by negotiations which involve coercion, persuasion and agreement.

In Commons' view economic activity is carried on in an essentially volitional manner. He contends that to be properly understood economic activity must be viewed "behavioristically," not subjectively—that is to say, it must be viewed in the perspective of a "negotiational psychology" which he distinguishes from the classical economist's "individualistic psychology of pleasure and pains, wants and satisfactions." He accordingly holds that the strategic relation in economic communication is the meeting of human wills and that the meeting of these wills takes place in transactions. To repeat, every transaction involves order, dependence, and conflict. Each participant in a transaction endeavors to influence the other towards "performance," "forbearance," and "avoidance." "Performance (including payment) is the exercise of power over nature or over others, in acquiring or delivering a physical or economic quantity. Avoidance is the exercise of power in one direction rather than in the next available direction; while forbearance is the exercise, *not of the total* power except at a crisis, or under compulsion, but the exercise of a limited degree of one's *possible* moral, physical, or economic power."[16] Every transactional choice is thus "a three-dimensional act" of performance, avoidance and forbearance "all at one and the same time." And, Commons thinks that "the transaction with its participants" is the "smallest unit of institutional economics."[17] He describes the transaction as resting upon legal usage and as affording a better picture of business practice than the term, exchange, traditionally employed by economists. In further distinguishing the idea of transaction from that of exchange he states that a bargaining transaction, involving collective actions between trade unions and business corporations, "is the negotiations and agreement which transfer *ownerships* under the 'operation of law,' " while an exchange is "the mechanical and labor process that physically delivers the object under the command of the owner."

Commons enumerates three types of transactions—the bargaining, the managerial, and the rationing. He says that the three types are "functionally interdependent and together constitute the whole" which he names "Going Concern."[18] But the three types of transactions differ with respect to the manner in which the wills of the different participants meet. In a bargaining transaction, typified in the behavior of trade unions and organized employers to each other, the participants are legally equal and their wills meet in an agreement setting

[16] *Ibid.*, p. 88. [17] *Ibid.*, p. 58. [18] *Ibid.*

forth the working rules which bind the parties in their dealings over the terms of employment. In a managerial transaction the parties are legally unequal, and the relationship between them is that of superior and inferior, of command and obedience. Managerial transactions are typified by the corporation in which the subordinate employees must necessarily acquiesce to the will of supervisors and managers, or by the trade union in which rank-and-file members must obey the orders of their leaders. Managerial and rationing transactions are similar in that both involve the relation of a superior and an inferior. But in the rationing transaction the superior is a "collective superior or its official spokesman."[19] The collective superior may be "a board of directors of a corporation, or a legislature, or a court of law, or an arbitration tribunal . . . or a cartel, or a trade union, or a taxing authority, which prorates among inferiors the burdens and benefits of the concerns."[20] Commons cites as an example of a rationing transaction at the governmental level, the program of "acreage allotment and marketing quotas to individual farmers under the Agricultural Adjustment Administration." Though effected by government authority the program was typical of all rationing transactions in that it was a "rationing of economic opportunities" and tended to take the place, "in part, of the historical market freedom of bargaining transactions."[21] But since "the three kinds of transactions are interdependent and variable in a world of collective action and perpetual change," there may be degrees of combinations among them.[22] According to Commons in a democracy of regulated capitalism bargaining transactions among legal equals are the focus of economic relations. Indeed he differentiates social philosophies and reform movements according as they are premised upon one or the other of these transactions. He states that the final social philosophy or the "belief regarding human nature and its goal" may be Communism, Fascism or Capitalism. "If managerial and rationing transactions are the starting point of the philosophy, then the end is command and obedience of Communism, Fascism, or Nazism. If bargaining transactions are the units of investigation, then the trend is towards the ideal of opportunity, of fair competition, of equality of bargaining power, of due process of law, of the philosophy of Liberalism and regulated Capitalism."[23]

I cannot accept the view that Commons' "transaction" represents in some way competitive market relations. Commons constructs the following formula to explain transactional price determination:[24]

Trial Judge—Supreme Court

B	*B'*	buyers
\$100	\$90	
S	*S'*	sellers
\$110	\$120	

[19] *Ibid.*, p. 59. [20] *Ibid.*
[21] *The Economics of Collective Action*, p. 211.
[22] *Institutional Economics*, p. 93. [23] *Ibid.*
[24] *The Economics of Collective Action*, p. 51.

After noting that there are five parties to the negotiations, two buyers, two sellers and an arbiter, he goes on to explain, "In this one supposed transaction there are four possible grounds[25] of dispute regarding the transfers of ownership by those who may turn out to be the actual seller and buyer, and each of these disputes may finally be decided by the Supreme Court, and thereafter taken for granted, that is, 'customary.'" But if the buying and selling parties in his model are behaving impersonally as they would in a competitive situation, why should disputes arise and why should an arbiter be necessary? If Commons' investigational unit, the transaction, represents anything it is a condition of bilateral duopoly, which is the closest he comes to describing market competition. As remarked by one of my colleagues, his economic machine must therefore have a fifth wheel, which is the arbiter,—the court, the administrator or some legal agency to settle disputes.

In appraising Commons it must be admitted that his doctrines while intrigueing and baffling are, from the standpoint of old-fashioned theory, perverse. His doctrines are quite personal to himself and, in my opinion, contain little that can be assimilated to the corpus of traditional economic theory. Commons' formulation of the scarcity principle and his idea of the relationship between scarcity and intangible property, also the use he makes of the distinction between assets and wealth would be seriously objected to by economists brought up in the tradition of Marshall, Knight, Hayek and Simons. But these and other pillars in Commons' theoretical edifice can not be adequately discussed in the present paper. Some attention should, however, be given to his basic postulate that collective bargaining transactions constitute the basis of economic processes and, also, to the bearing of this postulate upon some questions of social policy.

The idea that economic activity is carried on volitionally in a process of conscious bargaining between organized groups is not seriously objectionable when employed to describe collective bargaining between trade unions and employers. But it certainly can not be accepted as giving an accurate description of the behavior of the economy as a whole. There is little in market relations and operations, even where firms are monopolistic, that we can call volitional or conscious negotiation and bargaining in Commons' meaning. It is, of course, true that business operations are governed to a considerable extent by what Commons calls working rules such, for example, as those which the law of negotiable instruments represent. And it is also true that these rules embody conscious provisions as well as traditional usage. But they simply constitute a framework of law and custom within which strictly market operations are carried on. Whether

[25] These are the issues of: (1) "*competition*, as to whether the competitors have acted fairly toward each other;" (2) "*equal opportunity*, as to whether the actual buyer discriminates unfairly between the sellers, or the actual seller discriminates unfairly between the buyers, by charging or paying different prices under similar circumstances;" (3) "*bargaining power*, as to whether the price, or consideration agreed upon by the actual buyer and seller was determined with or without duress, coercion, unfair competition, or unequal opportunity, known as a fair or reasonable price or value;" and (4) "*due process of law*, . . . as to whether the trial court, the executive, or legislature, unjustifiably deprived any one of the participants of his liberty or property." *The Economics of Collective Action*, p. 51.

these rules are an indispensable condition for the market's operation is a question that need not be considered here.

Now Commons thought of himself as fashioning an economic theory of organized pressure group relations. According to him, "economic pressure groups have really become an occupational parliament of the American people, more truly representative than the Congress elected by territorial divisions. They are the informal counterparts of Mussolini's 'corporate state,' the Italian occupational state."[26] This American brand of corporativism, we are told, is the opposite of both communism and fascism and, also, the opposite of a democracy "of liberty, equality, and fraternity among individuals," the ideal defended and "developed in the nineteenth century by professional economists and approved by the public generally."[27] It is "the actual 'collective democracy' of economic organizations of capitalists and wage earners in the form of existing corporations and unions" in a world of increasing economic governments, vanishing frontiers, and increasing concentration of industry. Commons' collective democracy is essentially bi-monopolistic and thus rules out, both as a model of theoretical analysis and as a criterion of social policy, any idea of an impersonal determination of values by the market in the organization and allocation of resources. If Commons is asked what emerges from the bargaining and negotiations between the components of his collective democracy, he would answer "reasonable value." What is reasonable value? Commons defines it as representing the exercise of reasonable economic power, but explains that in the final analysis it is for the courts to decide when economic power is exercised unreasonably. This idea of "reasonable value" is drawn from the field of public utility regulation or regulated monopolies. But even here "reasonable value" would presuppose a general determination of values by the market. Whatever significance the concept may have in this field, it supplies no rule whereby a proper allocation of resources generally can be determined. It thus has little meaning or usefulness as a principle for understanding competitive market behavior or as a norm of a public policy which seeks to curb monopoly in the area of non-regulated enterprise.

Commons is a forerunner of those present day economists who think that competition is a vanishing phenomenon and that the economy tends increasingly to consist of large scale private collectivisms. His program of collective democracy is thus founded upon the assumption that the economy is predominantly monopolistic and that the trend to monopoly is inevitable. But the studies by Wilcox, Stigler, and Nutter should make one extremely skeptical about the inevitability of this trend and of the extent to which the economy has been affected by it. Commons thinks that economic opportunities are being continually narrowed by monopoly and industrial concentration and, that, since the frontier no longer affords escape from these conditions, the appropriate environment for the realization of the individual freedom of 19th century liberalism has disappeared. He believes that the only freedom possible under "banker" (monopoly) capitalism is a freedom achieved within limits imposed by the working rules of organized group activity. But since group organization in any case narrows

[26] *Ibid.*, p. *33*. [27] *Ibid.*, p. *264*.

the sphere of individual free agency and choice, it would seem that the more the economy is governed by organized blocs or pressure groups such as demanded by his collective democracy, the greater the curtailment of individual liberty and, likewise, of economic opportunity. This, it would seem, follows logically from his own views concerning the nature of the relationship between scarcity and property. Commons sees no threat to individual freedom because he entertains the view that "the rights and liberties" in question are not those of "equal individuals," anyway but those "of modern economic governments by which the 'management' of those corporations in transactions with individual laborers, investors and farmers, has gained control of nine-tenths of all production of wealth and a corresponding proportion of all wage earners."[28] He is thus undisturbed by any tendency towards increasing state intervention. He rather welcomes it as necessary to regulate relations between rival blocs of economic power and, also, to equalize bargaining power between the organized and the unorganized. He is also undisturbed by the expansion of administrative government which increasing state intervention occasions. For, he does not share the opinion of those who see a trend toward "absolutism" in administrative adjudication and rule-making. "The power of the administrative department," he naively argues, "is only investigational and advisory in so far as the legislature authorizes and the Court approves. As a so-called 'fourth branch' of government, it is more like a standing committee for economic investigations and recommendations to the three recognized branches and to the people generally."[29]

In Commons' welfare state the enterprise system operating by means of relatively free markets tends to be supplanted by a capitalism regulated by administrative bureaucracy. It is a state in which the legislative branch of government is destined to become the captive of the politically strongest economic bloc, the bloc, in other words, which is most adapt in corralling votes. While nominally retaining a separation of powers, this state is in fact based upon judicial supremacy, since the courts are made the final arbiters of what is reasonable in economic conflicts. But what, one is prone to ask, are the economic principles which the courts should employ in arriving at a judgment of reasonable value in specific cases? Commons offers no such principles. Reasonable value is what the courts say it is.

[28] *Ibid.*, p. 274. [29] *Ibid.*, p. 225.

PETROLEUM IN CANADA'S BALANCE OF INTERNATIONAL PAYMENTS

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It is the objective of this article to present a picture of the importance which petroleum has attained as a factor in Canada's balance of international payments.

The analysis of data[1] and prospects has to focus on the more immediate and direct influences exerted by the petroleum market upon the Dominion's international payments balance because those are the only ones which are roughly definable. This limitation to the analysis has, of course, its reason in the interdependence of the oil industry and many other industries, and in the complex interconnections between domestic price levels and international transactions.

Canada's international payment problems in the postwar era, resulting from various obstacles to multilateral trade, are well known and need not be restated.[2] It may simply be recalled that in the last four years the Dominion's official holdings of U. S. dollars and gold gradually recovered from a postwar low of 502 million Canadian dollars at the end of 1947 to $1,828 million as of June 30, 1952; a substantial net inflow of capital from U. S., net receipts of U. S. exchange from overseas countries, and domestic gold output directly helped bring about this result. The current strength of the Canadian dollar is indicated by the fact that, shortly after abolition of all exchange restrictions in December 1951, the Canadian dollar reached parity with the U. S. dollar, and more recently has been quoted at a slight premium.

Petroleum, so far, has been consistently and exclusively a debit factor in the Dominion's current international accounts and a credit factor in her international capital accounts. Practically all of Canada's international transactions directly connected with petroleum are being made with "hard currency" countries.

On current account, this discussion will first concentrate on the significance of the country's domestic output of oil and of its oil imports, in relation to total

[1] Most statistical data will be presented for the last two calendar years, for the last full prewar year of 1938, and for 1947, which was the first post-war year after completion of industrial reconversion to a peacetime basis. These are major landmarks for statistical comparisons, but, of course, data have to be appraised in the light of the rising trend in business activity and price levels which has prevailed during most of the past 14 years.

[2] See, e.g., Dominion Bureau of Statistics, *The Canadian Balance of International Payments*, 1951, 1950, 1949, and 1926–1948 (the latter issued in one volume); Dominion Bureau of Statistics, *The Canada Yearbook*, 1951, p. 928; G. S. Watts, "Some Longer-Term Factors in the Canadian Balance of International Payments," *Canadian Journal of Economics and Political Science*, February 1950, pp. 12–21; Federal Reserve Bank of New York, "Canada's International Economic Position," *Monthly Review*, April 1950; National City Bank of New York, "Toward Freer Foreign Exchanges," *Monthly Letter On Economic Conditions*, January 1952; Bank of Montreal, "The Canadian Scene," *Business Review*, May 22, 1952.

merchandise imports and current account balances of international payments. Canadian oil exports to date are practically nil.

Interest and dividend remittances from the Canadian oil industry to investors residing outside Canada will be submitted to a similar examination.[3] On capital account the net inflow of capital for direct investments and portfolio investments in the Canadian oil industry will be related to the country's over-all balance of international capital accounts, of which it has constituted a significant part in the past few years. Finally, the over-all picture will be summarized, followed by a brief discussion of prospective trends.

THE IMPORTANCE OF DOMESTIC OUTPUT AND IMPORTS OF OIL

Canada's physical output of crude oil in 1951 was over six times the volume in the immediate prewar and postwar years, and her refinery output last year was approximately triple the 1938 over-all volume. In spite of this impressive

TABLE 1

Physical Volume of Domestic Output and Imports of Oil

In Millions of Barrels (Round Numbers)

YEAR	CRUDE OIL		LIQUID REFINED PRODUCTS	
	Domestic Output	Imports	Domestic Output	Imports
1951	48	83	120	20
1950	29	79	102	19
1947	8	69	73	Est. 19
1938	7	35	37	Est. 6

Source: Bureau of Dominion Statistics (D.B.S.), *Refined Petroleum Products* (Monthly); *The Petroleum Products Industry* (issued Annually); and *Trade of Canada, Imports* (issued Annually).

expansion in domestic production, the physical volume of oil imports has con tinued to climb, as indicated in Table 1.

Practically the entire increase in imports of refined products from 1950 to 1951 went into an enhancement of refined stocks, and about three-fourth of the increase in crude imports during the last year was reflected in an increase of crude oil stocks. Nevertheless, it is apparent from Table 1 that, for the entire 1938–1951 period, the Dominion's petroleum consumption outpaced the rise in domestic output. The combined effect of two factors was responsible for this development: First, a sharp rise in the country's level of economic activity, as roughly indicated by the advance of the index of industrial production (1935–39 = 100) from 102.1 in 1938 to 175.5 in 1947, and to 212 in 1951.[4] Second, a pro-

[3] Another current account item is represented by services bought from foreign (mainly U. S.) servicing companies for oil exploration and development. However, no statistical data on remittances to foreign service companies are available. It is believed that only comparatively small net amounts have been actually remitted abroad for this purpose which would not significantly change the over-all picture.

[4] Dominion Bureau of Statistics, *Canadian Statistical Review*, April 1952, and prior monthly issues.

nounced shift to petroleum as a source of energy; petroleum's contribution to the country's total energy consumption climbed from 15.8 per cent in 1938 to 23.5 per cent in 1950.[5]

The dollar values of home production and imports of oil naturally reflect not only the growth in physical volume but also the price increases which have occurred during the period under consideration.[6, 7]

In considering the importance of domestic output, as compared with certain current items in the international payments balance, the selling value of the Dominion's refinery output (See Table 2, I, 4) is not an appropriate basis, because it naturally contains the bulk of the value of imported crude, as well as the cost of miscellaneous materials other than oil which go into the refinery process, such as tetraethyl lead, benzol, inhibitors, and chemicals. The value of domestic crude output, plus the value added in home refineries (Table 2, I, 1–3) furnishes a far better yardstick for the economic importance of domestic output. However, in using these data for our purposes, one has to bear in mind that they somewhat understate the dollar volume created by domestic activities in the petroleum industry inasmuch as they exclude charges on domestic transportation of crude to refineries, as well as the value added in the refining of non-liquid products.

How, then, does the dollar volume originating from domestic crude output and refining (in the following briefly referred to as "value of domestic oil output"), and the value of oil imports (crude plus refined), respectively, compare

[5] Compiled from data presented by Dominion Bureau of Statistics, *Mineral Statistics of Canada*, 1946 and 1950. The distribution of the Dominion's energy sources, reduced to a common BTU basis, were as follows for the years 1938 and 1950:

YEAR	OIL	NATURAL GAS	COAL AND COKE	HYDRO
1938	15.8%	2.4%	48.7%	33.1%
1950	23.5	2.2	43.8	30.5

[6] Dominion Bureau of Statistics, *Canadian Statistical Review*, April 1952, and prior monthly issues, show the following picture:

YEAR	WHOLESALE PRICE INDEXES, 1935–39 = 100	
	General Index	Petroleum Products
1938	101.9	100.5
1947	163.6	126.4
1950	211.2	167.7
1951	240.2	164.6

[7] The growing importance of petroleum in Canada's national economy is confirmed by the fact that, despite the pronounced lag of petroleum wholesale prices behind the average wholesale price trend, the selling value of her total refining output in 1951 was equal to about 3.5 per cent of national income (at factor cost), as against a ratio of 2.65 per cent in 1947, and 2.4 per cent in 1938.

with the country's total merchandise imports and international payment balances on current account? To this question the figures in Table 3 provide the answer in terms of over-all statistical data.

The significance of these over-all figures may be summarized as follows:

First: Despite the impressive gains made in domestic output of oil and oil products, the (greatly increased) dollar value of oil imports continues at over 8 per cent of the Dominion's total merchandise imports, i.e., at practically the same ratio that prevailed before the outbreak of World War II, and also in 1947.

TABLE 2

Dollar Values of Domestic Output and Imports of Oil
(In Millions of Canadian Dollars)

	1951	1950	1947	1938
I. *Domestic Output*				
(1) Crude Oil	$121.4	$84.6	$19.6	$9.2
(2) Value added in Canadian Refineries*	Est. 128.0	107.4	58.3	25.0
(3) Sum of (1) and (2)	Est. $249.4	$192.0	$77.9	$34.2
(4) Selling Value of Canadian Oil Refinery Output†	Est. $600.0	$511.5	$288.5	$103.5
II. *Imports*				
(1) Crude Oil‡	$231.0	$204.0	$127.5	$41.0
(2) Refined Products‡	112.9	92.6	79.7	14.6
(3) Total Oil Imports‡	$343.9	$296.6	$207.2	$55.6

* Value of domestically refined liquid products, less cost of all materials used.

† Selling value of entire refinery output, including non-liquid products, such as wax and asphalt.

‡ Crude oil imports in 1951, plus imports of asphalt, oil for concentration of ores and petroleum tops for refiners was $234.8 million; imports of refined products, including non-liquid, was $119.0, bringing the total imports up to $353.8 million.

Source: Dominion Bureau of Statistics (D.B.S.), *The Petroleum Products Industry*, 1951, 1950, 1948, 1939; D.B.S., *The Canada Yearbook*, 1951, 1950, 1940; D.B.S., *The Trade of Canada, Imports*, December 1951, and Twelve Months Ended December 1951, same 1947 and 1938.

Second: If Canada had no domestic output of crude and refined products, and if she would have to import all of it, without reducing her actual consumption of these products, oil would have represented nearly 14 per cent of total 1951 merchandise imports (assuming that the prices of the additional imported crude and refined products were not higher than those prevailing for actual home output).

Third: As measured against the country's current account balances of international payments, the value of oil imports, as well as that of domestic output, naturally bulk very heavily: the value of oil imports in the four years shown

in Table 2 varied between 231 per cent and 56 per cent of the country's current account balance in the years under consideration, the range for the corresponding ratio of domestic oil production being between 87 per cent and 34 per cent.

This, of course, does not mean that, in the absence of domestic oil production, the country's international current account balance in 1950, for example, would have shown a deficit of exactly 521 million Canadian dollars instead of the actual deficit of \$329 million, nor does it mean that in case of Canada's self-sufficiency in oil the current account balance in the same year would have been exactly +\$15 million (i.e., the actual, −\$329 million balance plus the \$344 million worth of actually imported oil), but it does indicate that oil imports and

TABLE 3

Dollar Values of Domestic Oil Output and Oil Imports as Percentages of Canada's Total Merchandise Imports and of International Current Account Balances

	1951	1950	1947	1938
I. *Oil Factor Related to Total Merchandise Imports*				
(1) Value of domestic oil output (Table 2, I, 3)	6.1%	6.1%	3.0%	4.9%
(2) Value of oil imports (Table 2, II, 3)	8.4	9.5	8.0	8.2
II. *Oil Factor Related to Positive* (+) *or Negative* (−) *Current Account Balances*				
(1) Value of domestic oil output (Table 2, I, 3), approximate	(−) 47%	(−) 58%	(+) 87%	(+) 34%
(2) Value of oil imports (Table 2, II, 3), approximate	(−) 65%	(−) 94%	(+) 231%	(+) 56%

Source: Compiled from same sources as Table 2, and D.B.S., *Canadian Balance of International Payments*, 1951, 1950, and 1926–1948 (the latter is published in one volume).

domestic oil output are of great weight as factors in the shaping of Canada's current account balances of international payments.

This impression is strengthened if the petroleum factor is examined in the context of international payment balances with those countries which are Canada's principal source of crude and refined oil. Such a breakdown is indicated in the light of the substantial degree of compartmentalization in international economics, which has resulted from widespread trade and exchange controls.

In 1951, about 54.2 per cent of Canada's exchange spent on crude oil imports was for crude bought from Venezuela, 25.7 per cent from the United States, 16.7 per cent from the Middle East, mainly Saudi Arabia, and the small remainder was bought from other countries.

The bulk of imports of high-priced refined products still comes from the United States. Consequently, in terms of dollars, imports of oil and refined

products from the United States still hold first place, representing about 43 per cent of the value of all such imports in 1951 (against 55 per cent in 1950, and 76 per cent in 1938). The importance of Canada's imports of crude oil and oil products from the United States, as related to various international payments data, is indicated in Table 4.

A comparison with the over-all picture of oil imports (see Tables 2 and 3), clearly indicates a relative decline in the importance of such imports from the United States: Percentagewise, oil imports (in Canadian dollars) from the U. S. have increased far less in the 1938–51 period than have Canada's total oil imports, and, in the last year, were actually slightly below the 1950 level. Whereas, in 1938, the Dominion spent about 76 per cent of its oil import dollars on crude and refined from the United States, that percentage was down to some 43 per cent by 1951. Consequently, although the relative importance of the Dominion's total oil imports within her aggregate merchandise imports in 1951 was slightly above 1938 and 1947, the corresponding percentage figure respecting 1951 oil imports from U. S. was sharply down.

TABLE 4

Relative Importance of Oil Imports from U. S.

(In Millions of Canadian Dollars)

	1951	1950	1947	1938
Imports of crude oil from United States	$59.6	$90.1	$77.1	$31.2
Imports of refined products from United States	90.8	73.5	59.4	11.1
Total oil imports from United States	$150.4	$163.6	$136.5	$42.3
Per cent of total merchandise imports from United States	5.3%	7.7%	7.2%	10.0%
Per cent of merchandise trade deficit with United States	29%	350%	15%	32%
Per cent of current account deficit with United States	15.7%	40.7%	12.0%	28.5%

Source: Same as Table 3.

Canada's oil imports (mostly crude) from Venezuela and Saudi Arabia represent practically her entire merchandise imports from those countries; the resulting negative balances on merchandise account—which, in the absence of substantial service items, should also be representative for the current account deficits with the two countries—have been as follows in recent years.

Tables 4 and 5 give an approximate idea of the relative importance of Canada's total oil imports in her current account transactions with "hard currency" countries. It is obvious from these data that the Dominion's oil imports have remained an important factor in her current account dealings with "hard cur-

rency" countries, even though there are signs for a gradual down-trend in the relative importance of oil imports from the United States.

SERVICING OF FOREIGN INVESTMENTS IN THE CANADIAN PETROLEUM INDUSTRY

According to the Dominion Bureau of Statistics,[8] United States ownership, at the end of 1950, amounted to 54 per cent of the whole Canadian petroleum industry, other foreign ownership was 2 per cent, and Canadian ownership accounted for the remaining 44 per cent. The 56 per cent foreign ownership in the oil industry compared with a 44 per cent average for manufacturing as a whole at the end of 1949. These ratios have not been changed to any significant extent in 1951 and the first half of 1952.

TABLE 5

Canada's Recent Merchandise Trade with Venezuela and Arabia

(In Millions of Canadian Dollars)

	1951	1950	1949	1948
Venezuela				
Imports from Venezuela*	$136.7	$87.3	$91.7	$94.8
Exports to Venezuela	27.0	25.5	27.7	16.9
Trade Deficit	109.7	$61.8	$64.0	$77.9
Arabia				
Imports from Arabia	$22.7	$28.1	$12.1	—
Exports to Arabia	1.4	0.9	3.1	—
Trade Deficit	$21.3	$27.2	$9.0	—

* Oil imports were $125.6 million in 1951; $86.2 million in 1950; $94.2 million in 1948.
Source: Same as Table 3, and D.B.S., *Trade of Canada, Exports*, 1950 and 1948.

The bulk of foreign petroleum investments consists of so-called direct investments, that is, investments made by U. S. corporations in Canadian subsidiaries, affiliates and branches. By far the most important of these direct foreign investments are Texaco's 56 per cent control of McColl-Frontenac Oil, and Jersey Standard's holding of 70 per cent of the stock of Imperial Oil of Canada; the latter company accounts for roughly one-half of Canada's actual and potential crude output and for slightly more than 50 per cent of refinery runs.[9]

In contrast, Canada's direct investments in non-Canadian oil industries are very small, most of her investments being portfolio investments.

Postwar earnings and remittances by Canadian oil subsidiaries of United States parent companies represent the bulk of remittances by the Canadian oil industry to foreign investors and have been as indicated in Table 6.

[8] Dominion Bureau of Statistics, *The Canadian Balance of International Payments*, 1951, p. 7.

[9] See Imperial Oil Limited, *Annual Report*, 1951, p. 33.

The addition of branch earnings would not alter the picture to any significant extent. Book earnings on these investments have been comparatively low—amounting to 6.2 per cent of investments in 1950, 11 per cent in 1948, 7.7 per cent in 1947 and 5.6 per cent in 1938—as a result of heavy exploration and development expenses, and a high percentage of new property outlays which only gradually become income producers; in the United States, return on net assets of 91 producing and refining companies averaged 16.7 per cent in 1951, and 15.2 per cent in 1950.[10]

The actual remittances made by Canadian oil subsidiaries to United States parent companies, so far, have been of little quantitative significance, amounting only to between 3.4 per cent and 4.1 per cent of annual total postwar remittances by Canada to the United States on direct investments.[11] They have been relatively inconsequential in comparison to the Dominion's deficits on current

TABLE 6

Postwar Earnings and Remittances by Canadian Oil Subsidiaries of U. S. Companies

(In Millions of U. S. Dollars)

YEAR	EARNED ON COMMON STOCK	PART OF EARNINGS		
		Re-Invested	Remitted	%*
1946	$10	$5	$5	50
1947	16	11	5	31
1948	30	22	8	27
1949	24	12	12	50
1950	32	21	11	34
1951	27	13	14	52

* Round up.

Source: S. Pizer, U. S. Department of Commerce, "Income on International Investments of the United States," *Survey of Current Business*, October 1951, U.S. Department of Commerce, "Income on International Investments in 1951," *Survey of Current Business*, August 1952.

account with the United States in recent years, which amounted to $589 million Canadian dollars in 1949, $403 million in 1950, and $955 million in 1951.

Receipts of investment service payments by Canada from the United States in the 1946–1950 period, varied between a low of $32 million U. S. dollars in 1947 and a high of $76 million U. S. dollars in 1950; while they were far smaller than total service payments in the opposite direction, they nevertheless far outweighed the remittances made by the Canadian oil subsidiaries to United States parent companies.

Specific data concerning Canadian remittances abroad on foreign portfolio investments in the Canadian oil industry are not available. However, many of

[10] National City Bank of New York, *Monthly Letter On Economic Conditions*, April 1952, p. 40.

[11] Compiled from data presented by S. Pizer, U. S. Department of Commerce, "Income On International Investments Of The United States," *Survey of Current Business*, October 1951.

the portfolio investments made by non-Canadians have been in oil stocks, which, so far, have made no dividend payments; consequently, it may be assumed that remittances made by the Canadian oil industry on foreign portfolio investments have not been of a magnitude sufficient to alter the picture of the Dominion's balance of international payments on current transactions.

NET CAPITAL INFLOW INTO THE CANADIAN OIL INDUSTRY AS A FACTOR IN THE DOMINION'S INTERNATIONAL CAPITAL ACCOUNTS

The bulk of the net inflow of foreign capital into the Canadian oil industry in the postwar period has come from the United States. Of this net inflow, data are available on capital transfers that went into direct investments, whereas, similar data on portfolio investments are lacking.

TABLE 7

U. S. Direct Investments in the Canadian Oil Industry

(In Millions of U. S. Dollars)

YEAR	1. TOTAL U. S. DIRECT INVESTMENT IN CANADIAN OIL INDUSTRY, GROSS (END OF EACH YEAR)	2. NET CAPITAL INFLOW FROM U. S.	3. RE-INVESTED EARNINGS
1946	$178*	—	$5
1947	208	$19	11
1948	274	44	22
1949	349	63	12
1950	518†	148	21
1951 (Est.)	683	142	13

* Equal to 6.7 per cent of all direct U. S. investments in Canada, and to 10 per cent of all direct U. S. investments in foreign oil industries.

† Equal to 13.4 per cent of all direct U. S. investments in Canada, and to 12.7 per cent of all direct U. S. investments in foreign oil industries.

Source: U. S. Department of Commerce, *Survey of Current Business*, October and December 1951; 1951 estimates are those of author.

It was primarily through net additional capital transfers that the direct investments by the United States in the Canadian oil industry climbed from $178 million (U. S. Dollars) at the end of 1946 to $518 million at the end of 1950, and may have reached a gross of about $683 million at the end of last year. Reinvested earnings played a comparatively minor role in this rapid growth of direct United States oil investments in the Dominion.[12] (See Table 7.)

As the development and exploration of Canadian oil fields gathered momentum since 1947, the inflow of capital from United States for direct investment in the Dominion's oil industry showed sharp increases.[13] In the last few years,

[12] The net book value of U. S. investments in Canadian oil companies, at the end of 1950, is estimated at 435 million Canadian dollars by DBS, *The Canadian Balance of International Payments*, 1951. The aggregate market value of these investments is currently materially above book value.

[13] Some of the figures on direct investment inflows from the United States to the Canadian oil industry, as set up by the U. S. Department of Commerce, differ substantially from

this net capital inflow has financed approximately two-thirds of the total money spent annually on oil exploration and development in Canada; including the net inflow of funds for portfolio investments in new oil issues, the proportion to which U. S. capital has lately contributed to Canada's new petroleum investments, must have been even larger.

The net capital inflow into the Canadian oil industry from the United States for direct investments has not only been increasing sharply in dollar amounts but also has been of considerable numerical importance to Canada's net balances on capital account with the United States, and with all countries; this is indicated by data presented in Table 8.

While no specific data are available for net foreign portfolio investments in the Canadian oil industry, such investments, chiefly from the United States,

TABLE 8

Relative Importance of Net Capital Inflow from United States for Direct Oil Investments

YEAR	NET DIRECT INVESTMENT INFLOW FROM U. S. INTO CANADIAN OIL INDUSTRY†	CANADA'S NET BALANCE ON CAPITAL ACCOUNT WITH	
		United States	All Countries
	(Millions of U. S. Dollars)	*(Millions of Canadian Dollars)*	
1947	19	−246	−54
1948	44	127	−450
1949	63	49*	−53
1950	148	960*	1,023
1951	Est. 142	560*	563

† Exclusive of retained earnings.

* Direct investments in Canada, exclusive of undistributed earnings, were $84 million Canadian dollars in 1949, $199 million in 1950, and $259 million in 1951.

In addition to the above net inflow of funds from U. S., Canada had net receipts of U. S. exchange from overseas countries to the extent of $434 million in 1951, and $137 million in 1950.

Source: Compiled from data presented by U. S. Department of Commerce, *Survey of Current Business*, October 1951 p. 13 and December 1951 p. 13.; Dominion Bureau of Statistics, *The Canadian Balance of International Payments*, 1951, and prior years.

may have amounted roughly to as much as $30 to $40 million Canadian dollars last year, and to some $15 to $20 million in 1950.

It is worth mentioning that the net investment flow from U. S. into the

records kept by DBS, due to differences in the definition of such capital inflows. For example, the U. S. Commerce Department's total of 148 million U. S. dollars for 1950 is far apart from a DBS estimate of slightly over 80 million Canadian dollars; obviously, the average 8½ per cent discount from parity with the U. S. dollar, at which the Canadian exchange was quoted in 1950, makes the discrepancy even somewhat larger.

The U. S. Commerce Department included in its figure the 1950 payment of two notes totalling about $28 million, previously owed by Standard Oil of New Jersey to Imperial Oil Ltd., whereas DBS treated this payment as a "net liquidation of direct investments abroad of Canadians." Furthermore, the U. S. Department of Commerce included certain securities issued by Canadian companies which were excluded by DBS; the latter, in contrast to U. S. Department of Commerce, excluded a portion of the dollar bond issue of Interprovincial Pipelines, which was used for investment in property located in U. S. territory.

Canadian oil industry—direct plus portfolio investments—probably exceeded the cost of oil imports from U. S. plus oil investment remittances to U. S. in each of the past two years.

SUMMARY OF PAST DEVELOPMENTS

As the importance of petroleum as a source of energy has grown in Canada, and as the Canadian economy has responded to secular and cyclical stimuli of expansion since the late 30's, both domestic output and imports of crude oil and refined products have shown rapid expansion, not only in absolute physical and dollar volume but also in relation to national income.

Concomitantly, petroleum as a factor in the shaping of Canada's balance of international payments has been gradually gaining in importance. Although not even the direct effects of this growing industry upon the international payment balance are subject to accurate measurement, statistical comparisons enable us to form at least an approximate idea of the importance of those effects. Statistical evidence indicates that, despite the impressive gains in domestic output of crude and refined petroleum, recent imports of these products have bulked at least as heavily, percentagewise, within the Dominion's total merchandise imports as they did in 1938, representing an average of about 8.5 per cent of such imports. Dollarwise, the relative importance of oil imports from U. S. has been in a downtrend, while the inverse is true for oil imports from the Middle East.

The importance of foreign exchange requirements for the financing of oil imports is heightened by the fact that practically all such imports are payable in "hard currencies," and that, on current account, international payment balances with the principal countries of origin show consistent deficits.

This situation, in a world of very limited currency convertibility, points to the great importance of the Dominion's domestic oil production, as an economizer of available "hard currency" resources. It is roughly estimated that, without domestic output of crude and refined oil, Canada might have to spend an additional 6 per cent to 7 per cent of total (increased) import dollars on fuel imports, because the country is also a heavy importer of coal and could not substitute domestic hydro power for imported oil and coal to meet all of its energy needs.

Although foreign corporations and individuals hold in excess of 56 per cent of total book investments in the Canadian oil industry, remittances of dividends and interest to foreign oil investors, so far, have been a minor item in the Dominion's current accounts of international payments. On the other hand, the net inflow of capital into the Canadian petroleum industry from abroad, mainly from the U. S., has grown to great importance in recent years. In 1951, it may have furnished as much as 65 per cent to 70 per cent of total new investments made during that year in Western oil fields; it probably was the equivalent of over 30 per cent of the country's (positive) over-all balance on international capital account, and was equal to about 50 per cent of the cost of all oil imports plus remittances to foreign oil investors.

TABLE 9

Summary of Canada's International Oil Transactions and International Payment Balances

(In Millions of Canadian Dollars)

	CALENDAR YEAR 1950				CAOENDAR YEAR 1951			
	International Oil Transactions With		International Payment Balances With		International Oil Transactions With		International Payment Balances With	
	World	U.S.	World	U.S.	World	U.S.	World*	U. S.*
Current Account								
Current receipts	Insignificant		$4,300	$2,875	Insignificant		$5,341	$3,197
Current payments:								
Merchandise imports	$296.6	$163.6	3,129	2,093	$343.9	$150.4	4,103	2,848
Interest and dividends	12.9†‡	11.9‡	474	410	13.0†‡	12.0†‡	447	378
Other current payments	Insignificant§		1,026	775	Insignificant§		1,315	926
Total current payments	$309.5	$175.5	$4,629	$3,278	$356.9	$162.4	$5,865	$4,152
Balance on current account	−$309.5	−$175.5	−$329	−$403	−$356.9	−$162.4	−$524	−$955
Capital Account								
Net direct investments by foreigners in Canada	+$160.6	+$160.6	+$221	+$199	+$149.1†	+$149.1†	+$296	+$259
Net portfolio investments by foreigners in Canadian securities	+20.0†	+19.0†	+255	+309	+30.0†	+28.0†	+265	+265
Other net capital items	Nil	Nil	+547	+452	Nil	Nil	+2	+36
Total net capital account	+$180.6	+$179.6	+$1,023	+$960	+$179.1	+$177.1	+$563	+$560
Balance From All Above Transactions	−$128.9	+$4.1	+$694	+$557	−$177.8	+$14.7	+$39	−$395

* Preliminary figures.

† Estimated.

‡ Exclusive of remittances on foreign portfolio investments which are believed inconsequential in 1950 and 1951.

§ This item would include remittances to foreign oil servicing companies; statistics are not available but amounts involved are believed to be relatively small.

Source: D.B.S., *The Canadian Balance of International Payments*, 1951, 1950. D.B.S., *Trade of Canada*, Imports, December 1951 and 1950. U. S. Department of Commerce, *Survey of Current Business*, October 1951, p. 13, and December 1951, p. 13; U. S. dollar data changed into Canadian dollars on basis of 8½% average discount from parity in 1950, and 5% average discount in 1951.

The last table shows a summary of Canada's oil transactions, as compared to her total balance of international payments, both for the world as a whole, and for U. S.; this table is designed to give a rough over-all picture of the magnitudes involved in the past two years.

PROSPECTIVE TRENDS

In trying to briefly project Canadian oil market trends into the future, and to bring them in correlation with the country's balance of international payments, long-term factors, rather than business cycle aspects will be emphasized.

It seems likely that the relative importance of oil imports, as a debit item in the country's current international account, will decrease gradually, as home output of crude oil, henceforth, should rise faster than oil consumption. Canadian supplies of crude oil should rise rapidly, as exploration activities in Western Canada are being further intensified. The country's output potential is approaching 300,000 barrels daily, equal to 8.5 per cent of 1951 consumption, and thus is far ahead of average 1951 producers' shipments of 132,000 barrels per day. It is estimated that the production potential will reach 390,000 to 400,000 barrels daily within a short time,[14] which compares with a daily consumption level of 350,000 barrels last year.

Canadian demand for oil—barring a major war—probably will expand more slowly in the coming years than it did since the late thirties, because now, close to the peak of the business cycle, and with little idle industrial capacity, growth in demand for oil will be limited mainly to secular influences.

Thus, Canada could come close to self-sufficiency in crude oil during the fifties, were it not for the fact that in the Atlantic Provinces of the Dominion, east of Ontario, oil shipped from the Western producing areas cannot compete with petroleum imported from Venezuela and Arabia. It is generally admitted that, in order to do justice to the logic of geography and economics, the Maritimes and Quebec should continue to import the bulk of their crude requirements[15] while part of Western Canadian oil output should eventually be shipped into the Pacific Northwest and the North Central areas of the United States.[16] If marketing gradually develops in this direction, Canada's oil exports may eventually well offset—perhaps even outweigh—her crude imports, which, from the balance

[14] U. S. Petroleum Administration for Defense (PAD), "Transportation of Oil," February 27, 1952, partly reprinted in *Oil In Canada*, March 17, 1952. In this report, PAD estimated that recoverable reserves in Western Canada would be in excess of 2 billion barrels by the end of 1954. PAD assumes a maximum efficient output rate equal to 7.2 per cent of recoverable reserves, which, on a 2 billion barrel reserve level, would be about 395,000 barrels of potential output per day. Present recoverable reserves are variably estimated at between 1.5 and 1.7 billion barrels.

[15] Of total recent imports of crude oil into Canada, about 90 per cent went into the Maritimes, Quebec and Ontario, and the remaining 10 per cent into British Columbia (the latter oil coming mainly from California).

[16] Robert L. Minckler, President of General Petroleum Corp., foresees a shortage of crude in California within a few years, and considers Canadian oil as one of the sources to supplement the domestic West Coast output at that time. See "Oil Shortage by 1955," *The Oil and Gas Journal*, May 12, 1952.

of payment viewpoint, would have the same effect as self-sufficiency in crude oil.[17]

Technically, the export of Canadian crude into parts of North-Central U. S. and the Pacific Northwest could of course be handled through an expansion of pipeline facilities, as they exist now in the Interprovincial Pipeline linking Redwater, Alberta, with Duluth on Lake Superior, and as they are projected in the Transmountain Oil Pipeline from Alberta to Vancouver.[18] Commercially, the U. S. import tariff of about 21 cents per barrel of crude constitutes a hurdle. A reduction of this tariff by about 50 per cent is reported to be impending. While resistance from the independent U. S. producers may stand in the way of abrogation of this tariff for some time, the increasing shift of the United States to an oil importing country should, eventually, overcome that opposition. From a long-run viewpoint, a threat to the marketing of Canadian oil in the United States could, however, develop in the event that crude reserves in the U. S. portion of the Williston Basin should prove substantial and should be rapidly developed. At present, it is too early to assess the potentialities of such competition.

The importance of imports of refined products seems destined to shrink to relatively insignificant proportions, because refinery capacity now under construction and programmed would support near-self-sufficiency, excepting some highly specialized lubricants.[19]

Remittances from the Canadian oil industry to foreign investors should, for a few years, continue comparatively small, as long as the bulk of earnings is being retained for intense exploration and expansion. When the current phase of rapid development changes into one of comparative maturity, remittances to foreign investors are likely to increase substantially. However, from a foreign exchange point of view, it seems reasonable to assume that the beneficial effects of direct foreign investments in the Dominion's petroleum industry will outweigh the additional exchange burden resulting from future remittances, as domestic output will be enhanced to the point where import needs will be limited and counterbalanced by oil exports.[20]

[17] In this connection, mention may also be made of a natural gas exchange plan which would channel Alberta gas to the Pacific Northwest, while U. S. natural gas from the South would be pumped into Eastern Canada. See R. J. Enright, "Gas 'Swap' Proposed," *The Oil and Gas Journal*, February 11, 1952. In April 1952, the Alberta legislature gave its approval to limited exports of natural gas from that Province to British Columbia and the Pacific Northwest. See *The Oil and Gas Journal*, April 21, 1952.

[18] The Transmountain Oil Pipeline is expected to take care of the needs of British Columbia, and to shut out crude oil imports from California, as soon as refinery facilities around Vancouver have been expanded correspondingly. See George Weber, "Refiners' Future," *The Oil and Gas Journal*, June 2, 1952, p. 52.

[19] See "Canadian Refiners Meet The Challenge," *Oil In Canada*, April 21, 1952.

[20] As an exercise in statistical arithmetics, rather than as a (very hazardous) projection, the following calculation is offered respecting the possible future size of remittances to foreign investors: It is assumed that a net investment of roughly 2 to 2.4 billion Canadian dollars—on present price levels—might be required to assure domestic output sufficient to establish an approximate balance between oil imports and exports. It is further assumed that 56 per cent of this total, or $1.12 to $1.34 billion, will be held by non-Canadian

Finally, on capital account, the heavy inflow of funds from the United States will probably continue, excepting in periods of business recessions, as long as the Canadian petroleum industry remains in a state of rapid development.[21] Therefore, no substantial change, percentagewise, in the share of foreign investments is foreseen during that period. From an over-all balance of payment viewpoint, a significant part of debits incurred by oil imports should, for some years, continue to be offset by net capital inflows into the Canadian oil industry, except in periods of marked business recessions. However, once the Canadian oil industry approaches a state of comparative maturity, the net influx of additional funds from abroad is likely to slow down considerably.

On balance, the importance of petroleum as a net debit factor in the Dominion's balance of international payments is likely to decline in the years ahead.

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investors, which is in line with the present ratio of foreign-held oil investments in Canada. Finally, it is assumed that in a more advanced phase of development, average return on net investments might be 12 per cent to 15 per cent, and that 40 per cent of net would, then, be paid out in dividends. Under these assumptions, annual remittances on foreign oil investments might reach a level of roughly between 55 and 80 million Canadian dollars; actual remittances would probably be closer to the lower figure, as part of dividend payments would, in all likelihood, be retained for further investments in the Dominion. These figures would compare favorably with the net deficit of $178 million in the Dominion's 1951 balance of international payments directly connected with petroleum market demand and investments. (See Table 9.)

[21] At present, profit possibilities in Canada appear generally attractive for American capital, first because the Dominion's fiscal policies are less inflationary and so far have not taken recourse to an excess profit tax, and second because capital gains are non-taxable during the lifetime of investors. Moreover, abolition of all foreign exchange control—although perhaps somewhat experimental in character, considering Canada's current reliance on large capital imports as a balancing factor in her international transactions—is an additional favorable factor. See for Canadian fiscal policies The National City Bank of New York, "Canadian Budgetary Policies," *Monthly Letter On Economic Conditions*, June 1952.

BOOK REVIEWS

The Rate of Interest and Other Essays. By Joan Robinson. London: Macmillan and Co., 1952. Pp. viii, 170. $2.00.

One of the derivatives of the Keynesian revolution is the revived interest in models embracing equations stating the conditions of economic growth. For a long time after the first efforts of the Classicists and Marx to couch the conditions but little on the subject appeared. To be sure, Marshall, Knight, and Schumpeter made important ancillary contributions but these, along with the contributions of earlier times, lay quite neglected until the cry about economic stagnation was again heard in the middle 1930's. From then on, a veritable downpour of articles and books on economic growth has descended upon journal and book editors. Joan Robinson adds to this downpour her mistitled *The Rate of Interest and Other Essays*.

This book is essentially an emendation of and a supplement to Keynes' *The General Theory*. There are three major and one minor essay, each of which is virtually complete in itself but when taken in total builds up "an analysis of a dynamic economic system" that is characterized by both trend and trade cycle with the emphasis on trend.

Mrs. Robinson warns that her dynamics is in a "primitive stage," and she really offers it as "an agenda for discussion." This modest view upon her efforts is heartening for, thus, an important member of the economics profession recognizes that a dynamic economic theory is still in the offing and not an accepted fact; certain others have been much too positive in their positions. Moreover, Mrs. Robinson shows no great fondness for the "gimmicks" which Harrod, Hicks, and others have injected into their theories. She is especially critical of "the accelerator" and considers it "a great impediment to clear thinking" on the nature of dynamic processes. Presumably, the economist, by applying such a "gimmick," fails to get at the underlying patterns of firm, productive factor, and consumer behavior.

The analysis which Mrs. Robinson develops has its origin largely in the works of Marx, Marshall, Rosa Luxemburg, Keynes, Harrod, Hicks, and Kalecki. A modified Marshallian short-period method is used extensively in a setting which refers to "past history." This referral to history imparts the dynamic quality to the analysis, in contrast with typical static analysis which solves for an equilibrium that the system would attain irrespective of history. Her method is made temporal through a fairly crude process analysis orientation and evidences in this connection the influence of D. H. Robertson.

Economic growth is primarily interpreted as capital accumulation, but an accumulation which is largely related to technological change. A standard interpretation of the growth concept is thus contemplated. Influenced by Harrod and Cassel, Mrs. Robinson employs as an analytical tool a concept of "steady capital accumulation." This idealized concept states the conditions under which growth would be continuous and fairly uninterrupted. These conditions are: 1) a steady

pace in technical progress; 2) a constant period of capital gestation (an even progression in the rate of investment and the rate at which new capital goods are put into use); 3) a neutral technical progress (cost reduction in terms of wage units is at the rate at which output per man-hour rises so that labor and capital measured in wage units per unit of output are reduced in the same proportion); 4) competition is sufficient to keep the normal profit rate fairly constant; and 5) the proportion of net income saved remains constant. Tacit to these conditions is an assumption of static expectations.

But in the dynamic private enterprise economy this idealized version of growth, "a golden mean," may be disturbed by "vicissitudes," factors limiting or governing growth. "Thriftiness" is the first of these. An increase in it may slow up the rate of capital accumulation. In her argument Mrs. Robinson follows sophisticated underconsumption theory and implies that, as the economy grows richer, there is some level of an optimum propensity to consume. Yet, she does not cling with might and main to the traditional argument; she believes that there are forces which may counteract, sometimes quite effectively, the tendency toward a declining propensity to consume. Such a force is trade union development.

Mrs. Robinson is much inclined to accept the traditional emphasis upon the negative impact of technological change upon employment and the conditions governing the quantity of labor applied. In this connection she develops her second category of vicissitudes: "the supply of labor."

In this section of her analysis she follows Classical-Marxian capital theory, and therefore would not admit into the argument the more realistic proposition of modern theory that all income may be rightly attributed to property. Thus, the mental ability of Einstein to do brilliant research in nuclear physics or the capacity of Bing to croon are just as much an element of property, belonging to Einstein or to Bing, as are the real plant and equipment used in making Chevrolets the property of General Motors. In modern industrial society, as each year passes, labor in the general sense is becoming more and more "capital," to the extent that society and the private firm both "invest" more and more in its education and training. The result has been and is that labor increasingly is engaged upon planning, idea-creative, and administrative activities, and less and less upon manual activities. The net effects are changing income structure and technical coefficients of production about which and whose impact upon the propensities to invest, to save, and to consume really little is known. If the conditions of work, investment, and saving of a generation or so ago are admissable as the correct assumptions, to talk of a pattern of secularly falling marginal propensity to consume may be valid; but the pattern may have no validity whatsoever if these assumptions are inadmissable. Today, there are good reasons to believe that they are inadmissable. Not only are the structures of production and income changing radically but, in several of their aspects, so are the structure of property and the rights of control over it.

In the light of this uncertainty about the assumptions, to place major emphasis upon technology as a primary generator of a redundancy of labor, as does

Mrs. Robinson, seems unwarranted. But to the degree that she does, she departs from *The General Theory*.

She continues the Classical-Marxian touch in her excursion into the third vicissitude, "the supply of land." Again her analysis is marked by a narrow interpretation of the meaning of capital and property; she adheres largely to the Classical theory of pricing of land and its effect upon income and investment. As usually do those who cling to Classical postulates, Mrs. Robinson comes around to a point of view propounded by Hansen and his followers, that the "closing" of the frontier has contributed much to increasing unemployment and the growing "reserve army" of labor supposedly characteristic of modern capitalistic society. Her position is that the redundant labor created by technological changes has until recently been absorbed by the process of taking of what she calls "free land."

Modern theory would hold that, as an economic concept, "free land" is wrong. That "land" which possesses any value is primarily capital, a fairly freely reproducible good. Free land would have no price for the reason that no one would desire it enough to make it useful. The land which the frontier has yielded has been at a price, sometimes a tremendous "price," when both economic cost and the loss of human lives are reckoned. The old rule that three generations of breaking of it and, therefore, investing in it were required to render a piece of land in the area "West of the Alleghenies" productive actually minimizes the economic costs involved in making the frontier available. The absorption of technological unemployment, whatever its magnitude, has been done by capital expansion, therefore, and not by the taking of "free land."

In net, to become a truly significant contribution, Mrs. Robinson's analysis needs to be recouched in terms of more realistic concepts of the productive factors.

"The supply of finance" is the one vicissitude that may be said to possess an institutional slant; and, interestingly enough, she finds little reason to think that this condition is severely limiting upon economic growth. On the other hand, "the rate of interest," which of course is related to the supply of finance, is made a much more important vicissitude in her analysis. Expectations about change in the rate of interest are especially examined and are viewed as being fairly tricky. Mrs. Robinson's discussion of the Keynesian interest theory in this and other connections constitutes a most important contribution to this general theoretical framework; it is from this discussion that she takes the title of her book.

There are other vicissitudes of more or less minor nature but space prohibits their inclusion in this discussion.

In sum, the several vicissitudes lead to considerable variability in economic growth. They presumably act as disturbances forcing significant deviations from trend. These deviations are akin to the trade cycle and Mrs. Robinson characterizes the boom of the trade cycle as "part of the trend." The cycle itself is tied up with the cramming of the accumulation into a short space of time and this cramming is interrupted as accumulation overshoots demand. The boom

consequently turns into depression and is thus to be generally characterized by an excess of accumulation. Yet each boom in its more finely chiselled features takes on differing appearances as various vicissitudes are operative at varying degrees from boom to boom; it is certain that no boom can continue interminably for the vicissitudes operate to make it otherwise. Her general argument is strangely reminiscent of earlier over-investment theory of the business cycle, with a blending of the theories of Spiethoff and Cassel.

Thus, Mrs. Robinson's theory of economic growth is founded largely upon what may be called the physical factors or conditions of growth or its cessation. Although Mrs. Robinson is far from adamant about the significance of each of these conditions as would be, for example, Hansen, she has gone farther than he in making a good case for the theory of economic stagnation as related to physical conditions. She is moreover temperate in her contentions. Careful study of her thesis will show that she believes that there are ancillary elements, especially the effect of the vicissitudes upon expectations. As an illustration, she finds that the extent to which a cessation of population growth will affect the private enterprise economy is not necessarily fully determinable because of the operation of expectations.

Important institutional conditions have been excluded from her analysis, however. Thus, she would have added much to the value of the analysis had she also supplied such vicissitudes as the indeterminacies and uncertainties which arise from the displacement of the market system by, what the reviewer terms, solidarity competition, the indeterminate type of price and wage formation which arises from competition among groups in a group-oriented and group-dominated economy. Here is an institutional factor which should be accorded considerable weight in contemporary dynamics; it may have more to do with recent interruptions of economic growth than any other factor. Indeed, it is surprising that an economist who is as well-schooled as is Mrs. Robinson in both Marshallian and Marxian thinking should minimize the institutional touch.

However significant these omissions, the reviewer can but conclude that *The Rate of Interest and Other Essays* contributes much of value to contemporary thinking on dynamics. Its reading is a must for anyone who has an interest in *The General Theory*, whatever that interest. As far as its general theory of economic growth is concerned, the reviewer is inclined to recommend it above Hicks' *A Contribution to the Theory of the Trade Cycle* and Harrod's *Towards a Dynamic Economics*, even though it may lack Hicks' systemics and Harrod's brilliance.

Emory University ERNST W. SWANSON

Schumpeter, Social Scientist. Edited by Seymour E. Harris. Cambridge: Harvard University Press, 1951. Pp. x, 142. $4.00.

This book brings together and makes readily available many of the recent essays which have been stimulated by reflection on the life and achievements of Joseph A. Schumpeter. In addition to being a useful study of his life and doctrines, the book has great value in that it deals explicitly with fundamental

issues. One of the greatest tributes to Schumpeter is that his work stimulated the type of papers which are reproduced here.

The book is a collection of previously published materials. Fifteen of the twenty essays are reprinted from the May, 1951 issue of the *Review of Economics and Statistics*. Part I is an introduction by Professor Harris and Part V is an essay by Arthur Smithies on Schumpeter and Keynes. Part II, "The Man and His Work," contains four papers, including the two memorials by Smithies and Haberler from the *American Economic Review* and the *Quarterly Journal of Economics*. Part III consists of nine contributions on Schumpeter's economics, and Part IV, four essays on the broader aspects of his thought. There is inevitably a considerable amount of duplication between the various essays as to factual material and the circumstances of Schumpeter's life. It is interesting, but not surprising, to note that again and again essays on diverse subjects take their departure from the same problems in Schumpeter's thought. On the whole, however, the papers are well selected; they cover the matters of principal importance in Schumpeter's work, and each makes its unique and worthwhile contribution.

In Part II most of the main problems which recur throughout the book are raised. Frisch discusses the question of Schumpeter's views on mathematics and its relevance to economics. In dealing with this he expresses worthwhile attitudes of his own—another circumstance which recurs throughout the book and adds to its usefulness. He points out that no precise model can take the place of intuition, or art, or the flash of genius of the great thinker. Here, says Frisch, Schumpeter not only served as the Moses of econometrics, but entered into the promised land himself. Samuelson, and Tinbergen in Part III, also feel that Schumpeter was not a mathematician—a "patron" as Samuelson puts it, of econometrics, rather than a practitioner. Machlup, in Part III, adds to this topic by showing that Schumpeter felt economics to be inherently quantitative in character, in some respects more so than physics.

The two fine memorials in Part II both attempt to come to grips with the seemingly irreconcilable facts of Schumpeter's character. Both Smithies and Haberler build their explanation from certain significant aspects of Schumpeter's life, particularly his early life. Especial stress is placed on the influences around Schumpeter in Austria. Again his method and approach pose a basic problem, in particular the question of science versus ideology. According to Smithies, and I think this is true, Schumpeter did not succeed in establishing scientific knowledge which was independent of his ideology, although it was his ideal to do so. Haberler feels that Schumpeter was not a happy man—he never overcame "the cleavage between his high and austere ideals on the one hand and his human feelings and impulses on the other." The massive *Business Cycles*, says Smithies, must be thought of as an effort to interpret the facts in the light of the theory which Schumpeter formulated with crystal clarity in the third decade of his life. Despite this, however, Usher and others (including Smithies) stress the profoundly provocative character of this work. To complete the methodology theme, Machlup's treatment of Schumpeter in Part III contains a meaningful commentary on the relations between theory and fact. In defending Schumpeter,

Machlup makes the timely observation that current predictions cannot be the only test of the usefulness of economics as a science, and that this view naively overlooks certain differences between the physical and the social sciences. He also points out that economics has always suffered from seeking an immediate solution to contemporary problems. Stolper's "Reflections on Schumpeter's Writing" is one of the best essays in the book. It gives the ultimate justification for Schumpeter's method and approach and provides a useful commentary on the cumulation of economic doctrine.

Turning to Part III, an essay by Erich Schneider represents a careful exposition of Schumpeter's early formative years and the astonishing achievements of this period. This chapter is invaluable in its coverage of his highly important but little known early work. Marget and Haberler, in Part III, deal with his monetary theory and this theory of interest. Hansen's essay on Schumpeter's contribution to business cycle theory contains a useful and illuminating exposition of the early development of macro-economics and Schumpeter's role therein. Several of the Keynesians, Hansen being an example, dwell on the advantages which would result from an integration of Schumpeter and Keynes. There appears to be no doubt that much fruitful speculation could take place along these lines. Chamberlin also feels that there would be benefits from a marriage of his views and the views of Schumpeter. Schumpeter was an individual craftsman. He made less use than he might have of contemporary speculation, although he understood it all with unparalleled clarity. Edward S. Mason explores thoroughly the basic differences between Schumpeter's views and traditional American anti-trust policy, shows what anti-trust policy might learn from Schumpeter, but concludes that the "process of creative destruction" does not provide an analytical framework which could serve as a basis for public policy.

Part IV will be especially valuable to economists since it deals with issues usually considered non-economic. It contains some of the most useful criticism of Schumpeter's work to be found in the book. In addition to the essay by Usher, Herbert von Becherath and Paul M. Sweezy deal with Schumpeter's analysis and changes of view on social classes and the coming of socialism. Together they well reveal the shortcomings as well as the strong points of this much discussed analysis of Schumpeter's. David McCord Wright feels that Schumpeter did not understand American democracy, that he took a mechanistic view of political ideals and processes, and that this must be understood in interpreting Schumpeter's defense of the theoretical compatability of socialism and democracy.

As Haberler remarks, it is still too early to complete the appraisal of Schumpeter's contribution, but this book is an important step forward. In addition, it will serve as a first-rate but non-systematic biography.

Vanderbilt University EWING P. SHAHAN

Neue Wirtschaftslehre. By Andreas Paulsen. 2nd rev. ed. Berlin and Frankfurt a.M.: Vahlen, 1952. Pp. ix, 272. Paper DM 15.00; cloth DM 16.75.

The subtitle of this book represents it as an "Introduction to the Economic

Theory of John Maynard Keynes and to the Economic Policy of Full Employment" and, indeed, the book presents an excellent exposition of the "New Economics." Its author is professor of economics at the Free University of Berlin.

Professor Paulsen does not intend to convert his readers to "Keynesianism," but only to give them a full and exact account of Keynesian and post-Keynesian economics. He does this in a most systematic and felicitous way. He refers frequently to classical and neo-classical writings and shows links as well as contrasts with modern thought; but he avoids the smug and condescending criticism of earlier writings that has characterized much of the Keynesian literature. He also avoids dwelling on the defects in the original Keynesian system; rather he incorporates in its exposition most of the revisions, improvements and qualifications that have been made in the literature of the last fifteen years. He knows the literature very well—the index of authors includes 162 names—and he uses it, not to show his erudition, but to present the problems and issues in the most up-to-date version. I can imagine that this book serves an important need in a country whose libraries cannot afford to supply many foreign publications.

A translation of the chapter titles will indicate the scope of the book: I. Economy and Economics. II. Keynes and His System. III. Income, Investment and Saving. IV. Consumption Function and Multiplier. V. The Demand for Capital Goods. VI. Money and Interest. VII. Wage Level, Employment, and Business Cycles. VIII. International Trade and Employment. IX. Employment Policy. The skimpy treatment of interest theory is the only disappointing part of a book which otherwise maintains a very respectable standard of scholarship and exposition.

The Johns Hopkins University FRITZ MACHLUP

Econometrics. By Gerhard Tintner. New York: John Wiley & Sons, 1952. Pp. xiii, 370. $5.75.

Econometrics is misnamed; it should have been titled, *The Application of Modern Statistical Methods to Unrelated Groups of Economic Data*. The volume begins with a definition of econometrics as "the application of mathematical economic theory and statistical procedures to economic data in order to establish numerical results in the field of economics and to verify economic theorems" (pp. 3–4). This statement suggests, I think correctly, the process of formulating a hypothesis on the basis of economic theory, then subjecting the hypothesis to empirical tests and scrutiny by means of statistical procedures. Yet in Professor Tintner's book the first of the two steps, the application of economic theory in setting up hypotheses, is not systematically or extensively considered. The basic source of the seemingly unrelated economic hypotheses that Tintner tests to illustrate his statistical discussions is never revealed.

The book is divided into three chief parts. The first of these is entitled, "A Non-Technical Introduction to Econometrics." This part begins with a brief discussion of the relationships between econometrics, economics, and statistics.

This is followed by an outline of regression methods. The regression methods are then applied to certain problems in economics, e.g., demand and supply functions, and economic models.

The second major segment of the book deals with multivariate analysis. The topics covered include multiple regression and multivariate distributions, partial correlation, discriminant analysis, principal components, canonical correlation, weighted regression, and identification.

The final portion of the book treats time series analysis. As in the second part of the book, the topics and methods are sophisticated. Beside the classical topics of time series analysis, topics such as autocorrelation, non-parametric tests for trend and cycle, stochastic processes, and the transformation of observations are discussed.

In addition there are two appendices dealing with matrices and determinants, and computational methods.

With the exception of index numbers, very little of importance to the statistical methods of econometrics has been left out of the book. A great deal of the important modern literature is cited. A large number of examples are used, although in some cases the examples are merely summaries of extensive research projects with no calculations shown. In all cases the examples are handled with wise and temperate criticism. Similarly the assumptions underlying the statistical methods are carefully expounded and checked against economic realities insofar as these are known.

Two major defects mar the book. First the previously noted absence of mathematical economics leaves the statistical techniques floating around independently in space, not bound to any central theoretical structure. The second major defect is inadequate discussion of the reasoning behind the statistical techniques themselves. Virtually no rigorous proofs or derivations are offered, and the literary discussion is too scanty to give the reader an intuitive grasp of the rationale of the methods. As a consequence, it seems to me, the reader must have a knowledge of the methods greater than that presented in the book before he can understand the book. This renders the purpose of the book obscure.

Since a previous knowledge of mathematical economics is necessary for a perspective view of the book and since a knowledge of a substantial part of modern statistics is a prerequisite to understanding the book, the only contribution of the book would seem to be a critical presentation of an extensive number of examples of econometric applications. Perhaps from the pen of a great pioneer this is a sufficient contribution.

University of North Carolina R. W. Pfouts

The Quantity Theory of Money. By Hugo Hegeland. Göteborg, Sweden: Elanders Boktryckeri Aktiebolag, 1951. Pp. x, 262. Paper, Sw. Kr. 25:—.

This book has a fourfold focus: clarification of various meanings of the term "quantity theory of money;" a history of usage of the term; the confusion resulting from misunderstanding and misinterpretation by many writers of the views of their predecessors and contemporaries; and an integration of the

quantity theory of money approach to the theory of output and employment with the Keynesian analysis.

Interpretations of the term "quantity theory of money," Hegeland points out, are numerous—"almost as many . . . as the number of its interpreters." Among these there are three principal versions to which Hegeland refers as the original, the common, and the most correct or developed theory. The original version is that with other things the same, average prices (i.e., the level of prices) are proportional to the quantity of money. This version was introduced by Locke to indicate the comparative unimportance of the quantity of money *per se*, i.e., to convey the idea that whatever media serve as means of exchange, they have no value as such and do not add to the wealth of nations; and was without implication regarding the process of adaptation to a change in the quantity of money or the causal forces operative in such a process. The common version, that a change in the quantity of money causes a proportional change in prices, is a logical corollary of the original version when stated with precision and other things remain the same, but has resulted in confusion because of controversy over the importance and degree of variations of the "other things." The most correct or developed version of the quantity theory, that of Irving Fisher, is a conclusion from inductive study that the rate of circulation of money and the volume of transactions (in quantity terms) are not affected, except temporarily, by change in the quantity of money (circulating medium); and hence a conclusion that changes in the quantity of circulating medium relative to the supply of goods and services do result in proportional changes in the level of prices.

About three-fourths of Mr. Hegeland's book deals with the historical development of the quantity theory and the controversies associated with this development. The chapters in this part of the book are devoted to the following topics: alleged forerunners of the quantity theory; founders and first critics of the theory; views of the classical writers and participants in the controversy between the currency and the banking schools; American adherents and critics; the Cambridge school; French and Italian economists; German economists; the Scandinavian literature; and the fundamental content of the various ideas set forth by these writers. The scope of the survey is indicated by the index of names, which refers to more than two hundred persons. The reviewer has no hesitancy in saying that the survey should be of great value to every economist dealing with the theory of the value of money or the relation of changes in the quantity of money to changes in the volume and value of output.

Hegeland's attempt to combine the quantity theory with Keynesian theory starts with the assertions that writers prior to Keynes treated money primarily as a medium of exchange with little attention to its role as a store of value, and that except for Wicksell had not made a real attempt to integrate monetary theory with general economic theory. Keynes' contribution to monetary theory was his emphasis on the function of money as a store of value and consequent division of the stock of money between that used as a medium of exchange and that held as a store of value. Recognition of the store-of-value function of money involves consideration of the various motives for holding cash, the relation of

cash holdings to the rate of interest and to the price level, and also consideration of various concepts of monetary velocity and their determinants. Hegeland concludes that the effect of a change in the quantity of money depends on various circumstances, and in particular that one of the consequences is likely to be a change in the proportion of the total quantity of money held as a store of value. This leads to the conclusion that the third or most correct version of the quantity theory of money is valid only with respect to a changeable portion of the stock of money and is fallacious when applied to the entire stock of money.

In tracing the development of the numerous versions of the quantity theory of money, and in discussing the effects of a change in the quantity of money, Mr. Hegeland gives considerable attention to the various forms of the equation of exchange and properly emphasizes the fact that the equation states only proportional relationships and not causal factors or sequences. However, he makes a curious error with respect to velocity. After asking, "Which factor is actually determined by the equation of exchange?," he comments, "If we limit the discussion to the formula $MV = PT$, it is quite evident that the only thing actually determined is the value of V. The values of M, P, and T are not determined by any equation; but the determination of V requires knowledge of M and the amount of transactions which are to be included, i.e., PT." "Accordingly, the equation of exchange should be written $\frac{PT}{M} = V$, since V is the only factor determined by the equation . . ." (pp. 93 and 219). This is not correct, except as a matter of the statistical data now available. So far as the equation is concerned, there is as much independence in V as in M. V represents the reciprocal of the average time intervening between the transactions in which each unit of the money supply is used. A sampling process is conceivable which would provide a direct measure of velocity in the form of an index number which would be as reliable as many of the index numbers of prices which have been developed and used.

Mr. Hegeland also overlooks, as did Keynes and his followers, a large body of literature dealing with various facts of the processes sequential to a change in the quantity of money, such as the differential rates of change in prices and their effects on prospective profits, the role of interest as a price for the loan of money under conditions of rising and falling prices of goods and services, and the impact on holdings of money of prospective changes in prices and profits. The contributors to this literature—to mention only a few—include contemporaries of Ricardo (e.g., Attwood, Bollman, Joplin, and Thornton), American economists of the nineteenth century who were leading participants in controversies over monetary policy and in government monetary commissions (e.g., George M. Weston and S. Dana Horton), and in the early part of this century Herbert J. Davenport, who achieved in his *Economics of Enterprise* as much integration of monetary with general economic theory as did Wicksell or Keynes. The theoretical analysis expressed in this literature, though it has never been adequately presented in any single volume, is more comprehensive and illuminating than that of Keynes, for it not only recognized and stressed the fact of variation in the

amount and proportion of the circulating medium held as a store of value, but also discerned the chief circumstance under which such variation occurs, namely, as a sequel to substantial variation in the total quantity of money.

Readers of Hegeland's book will need to be alert to mistakes in language due to the problem of a Scandinavian writing in English. In one place he has stated the precise opposite of what he intended (this has been confirmed by Mr. Hegeland). The statement, "the depression in the seventies was explained as the cause of a decreased quantity of money," (p. 94) was meant to read, "the depression in the seventies was explained as caused by a decreased quantity of money."

McLean, Virginia CLARK WARBURTON

The Transportation Economics of the Soybean Processing Industry. By Earl C. Hedlund. Urbana, Ill.: University of Illinois Press, 1952. Pp. vii, 189. Paper $2.00, boards $3.00.

Alfred Weber would have been proud of this endeavor, for his locational framework permeates the largest part of the book. This is not to say that Mr. Hedlund has confined his interest to a treatment of a space economy that is uncomplicated by human interference; quite the contrary, major emphasis is assigned to the impact of in-transit privileges on the locational influence of the (*natural* and *general*) transportation factor. But, it is to say that the Weberian spirit lives in the form of emphasis on cost and abstraction from locational interdependence. This highly simplified type of model constitutes the core of Mr. Hedlund's methodological approach to the problem of locating a soybean processing plant.

The basic failure of this otherwise worthy endeavor is thus the short-coming that is common to much of economic literature; namely, excessive abstraction. In this particular book, it takes the form of lip-service to market areas, for Mr. Hedlund repeatedly cautions the reader to be cognizant of the area content of demand for soybean oil and meal, while, at the same time, falling into the trap of appraising the influence of the market, on the location of a soybean processing plant, *as if* it were located at a point. It is in this manner that the significant chapter of the book is written, and the locational advantages (disadvantages) of different communities for processing soybeans are evaluated. And, while the use of the basing point system of pricing in this industry offers some justification for this particular framework, there is strong reason to doubt the author's appreciation of its relationship to his approach, for he mentions briefly the existence of this price system on page 173.

Nothwithstanding its abstractions, *The Transportation Economics of the Soybean Processing Industry* represents a significant milestone in the treatises on plant location. Its chapter divisions and the subject matter included in each are generally well planned, though, as indicated above, lacking sufficient comprehensiveness in some cases; the author's easy style facilitates the reading of the book and the understanding of his ideas on plant location.

This book is divided into eleven chapters. Chapter One is introductory. It indicates the author's philosophy that, "if we assume that spatial adjustment of the productive factors accounts basically for locational problems, then surely it

must follow that the act of transporting these factors is the most important proposition involved in location theory." But a writer with an opposite approach could well have stated that, "if we assume that attempts to exclude others from particular market segments form the basis for competition in space, then surely it must follow that the underlying spatial adjustment of productive factors depends upon the extent to which natural economic and sociological forces permit such exclusion."

Chapter Two summarizes locational studies and theories. It reveals two significant features: (1) the influence of the German School (pre-Lösch) on some American theorists, including Mr. Hedlund, and (2) the fact that spatial competition (interdependence) is not, generally, realized to be an integral part of location theory. A statement typifying the approach of Mr. Hedlund, and one which helps account for the category to which I have assigned his book, is the following, which may be found on page 21: "After the analysis of transportation costs and other relevant factors has indicated the orientation of a plant, the possible market area must be analyzed transportation-wise to see within which market area or areas the proposed location falls." The price practices of and location of competitors are not considered location factors either here or elsewhere in the book. But, though I, therefore, regard this chapter as a very weak one, its content is quite informative to the average reader.

The third, fourth, fifth, and sixth chapters are concerned with a quasi-historical review of, (a) soybean production, its increasing importance, its characteristics, and its location, and (b) transit privileges in general, and as applied to the processing on soybeans. The review in these chapters is superior, and very informative to one who has little knowledge of in-transit privileges and the importance of the soybean.

Chapter Seven deals with the economic effects of transit privileges on plant location. The analysis is good, nothwithstanding certain contradictions which cannot be discussed here because of limited space.

The eighth and ninth chapters of the text deal, respectively, with the General Railroad Rate Structure and The Railroad Rate Structure for Soybeans and Soybean Products. The handling of these intricate subjects is masterful and the careful reader cannot help but acquire valuable information.

The tenth chapter is both the weakest and strongest chapter of the text, if such is possible. Herein, Mr. Hedlund analyzes the location of processing plants, by attempting to show the transportation cost advantages and disadvantages of given production centers relative to different market areas. Unfortunately, the author did not determine empirically the supply or market areas that belong to certain firms. Such type of examination could have explained (and aroused interest in the question) *which attracts which*, the soybean farmer or the soybean processing plant, and, it might have provided means for verifying and explaining the emphasis on transport costs. Possible revelation that each (most) soybean processing plant sells primarily to one or two buying points would have set up *the* condition that would have eliminated need for references to market areas; concomitantly, the existence of such type of market would have obviated criticism of the theoretical framework of this book.

On the other hand, it is in this tenth chapter that the author performs admirably in analyzing the transportation advantages of a given location in respect to different parts of a market area, and, perhaps even more significantly, provides some justification (though apparently oblivious to it) for the Weberian framework. This partial vindication of method (to repeat) lies in the sudden revelation on page 173 of the existence of the basing point system of pricing in this industry, which condition supports the Weber (least-cost type of) approach to plant location, by providing its requisite of a given price at a given market. But, just as well as the criticism (that Mr. Hedlund disregarded the locational interdependence of firms that is caused by their competition in price at different market segments) loses meaning, the criticism arises that his book would have gained value by, (a) empirical determination of the extent to which such basing-point price practice was inviolate, and (b) empirical and theoretical appraisal of locational interdependence under the basing point system of pricing.

The eleventh and final chapter of this book summarizes and concludes the study. In turn, it calls forth these following final reflections.

If the author had limited his objective to the narrow confines of the title of his book, little room would have been left for criticism. It is only in his implied (if not explicit) attempt *to explain* the location of soybean processing plants that his emphasis on the transportation factor and his discussions of location theory, framed in the Weber pattern, appear inadequate. Mr. Hedlund would have done greater justice to his book by having limited his objective, explicitly and in practice, to the transportation economics of soybean processing, or else to have entered into a comprehensive appraisal (empirically and theoretically) of the location of soybean processing plants.

Nothwithstanding its shortcomings, I would recommend this book not only to those who are interested in transportation economics, but also to those who are interested in location theory. In its particular field of emphasis, it is very worthy.

Mississippi State College MELVIN L. GREENHUT

The Economics of the International Patent System. By Edith Tilton Penrose. Baltimore, Md.: The Johns Hopkins Press, 1951. Pp. xv, 247. $4.00.

The book by Dr. Edith Penrose constitutes a contribution to economic history as well as to economic analysis.

In its historical introduction, it offers an excellent survey of the development of the modern patent system, with special attention given to the International Convention for the Protection of Industrial Property and its economic background. The first chapters of the book thus supplement the author's article on "The Patent Controversy in the Nineteenth Century", written jointly with Professor Fritz Machlup and published in the May 1950 issue of the *Journal of Economic History*.

The major part of the study deals with the economic evaluation of various provisions of the International Convention. This economic analysis relates to the general rationale of the patent system as well as the special problems raised by its international extension.

Patents are held to be necessary to persuade inventors to disclose their secrets

and to encourage the introduction of technical innovations. The deliberate adoption of such a monopoly privilege to patentees can be justified on economic grounds only if the gains that accrue from it to society exceed the costs incurred because of it. The gains to inventors and firms operating under patent protection are readily identified and therefore have been frequently stressed by patent experts, whether their expert knowledge stems from legal training or engineering experience or technological research. The costs are much less tangible and more widely diffused; they appear as increased prices, and production lost through the less efficient use of resources when new techniques cannot be freely applied. As a result, the social costs of the patent system may be underestimated, and it is the responsibility of the economist to show the over-all balance of costs and gains. This has been the traditional role of the economist in analyzing industrial protection. Professor Machlup, in his preface, therefore extends a "Welcome back!" to economists re-entering the discussion of patent policy.

As the economist's contribution to policy decisions appears most helpful where he has been able to devise some conceptual framework for the statistical measurement of economic data, it is indeed awkward that the social costs of patent protection cannot be measured, nor the gains counted. The factors determining economic development and technological change are too complex to permit ready identification; as a result the optimum limits of the patent system, whether with respect to time, space, patentability or restrictions on the use of the grant, remain a subject of controversy. In this regard, the difficulties of patent analysis are shared with other problems of economic dynamics where the issue is not an evaluation of the most efficient use of given resources but of the potential addition to our productive capacity through resource development. Recognizing fully this lack of precision inherent in any discussion of economic dynamics, the economist yet retains the vital function of focusing attention on the less apparent long-run social costs of any given policy.

This function is not adequately discharged by the mere exhortation of the gains accruing from free trade. In a world where economic motivation is determined by the search for immediate gain, using a given and partly immobile resource base, as well as group loyalties and interests in economic growth, the real policy issues evolve around the question how best to reconcile given market imperfections with the competitive ideals of an enterprise economy, at least in the longer-run. In this setting, indiscriminate insistence on the "free market" in a particular sector of the economy may decrease rather than increase "workable competition." Dr. Penrose shows convincingly how the mere existence of national patent laws creates an economic problem which can only be met by an international extension of patent protection. For so long as national patent laws exist, the prohibition of international patenting, tempting as it might appear to free traders at first thought, would exert an uneconomic influence on the international location of industry by creating a strong incentive for national patentees to locate their plants in larger industrial countries merely because they could there obtain a monopoly profit greater than elsewhere. To reduce the influence of national patents on the location of industrial activity—rather than the usual

justification that it promotes technological progress—thus appears as the economic rationale for the international extension of patenting.

Dr. Penrose favors compulsory licensing as a method to limit the social cost of the patent monopoly. Compulsory licensing could be used to undermine the monopoly power of international cartels whose position is largely based on their control of the patent rights to industrial processes in the larger countries. In a sense, this recommendation tends to shift the problem rather than to solve it, for it leaves to the administrative discretion of each country the problem to determine the social gains and costs of a foreign patent. The different role of the state in directing economic affairs may in part explain the traditional importance of compulsory licensing in the German patent system and its absence in this country. Yet compulsory licensing—with proper safeguards—could become an effective method to make the international patent system more flexible and adaptable to national economic needs.

In a bipolar world technical research, resource development, industrial location, and foreign trade may be determined to an ever larger degree by administrative decision based on considerations of national security rather than by the forces of a relatively free market. To that extent, the international patent system of the nineteenth century and its aspirations may raise nostalgic memories of a more peaceful past. Yet these comments are beyond the scope of Mrs. Penrose's book. The international aspects of our patent system, within the confines of a reasonable free world market, have been discussed by Dr. Penrose with scholarly care and keen insight.

Washington University WERNER HOCHWALD

International Economic Papers, No. 1: Translations Prepared for The International Economic Association. Edited by Alan T. Peacock and others. New York: Macmillan Co., 1951. Pp. 244. Paper, $3.50.

This book, the first of an annual series initiated by the International Economic Organization in cooperation with UNESCO, presents 10 articles touching different aspects of economic theory; there is something of interest for almost everyone. The title, however, is somewhat misleading. One would assume, at first glance, that the book contains a variety of papers on international economic theory—such is not the case. President Haberler explains in the Foreword:

> In the field of economics the dissemination of new ideas and theories is seriously retarded by the lack of ability, or at least facility, in reading contributions in foreign languages. . . . After careful consideration of various alternative projects, it was decided that the limited resources can be put to the best use by publishing an annual volume of translations of important articles from other languages into English.

Therefore, the book is a compilation of papers on economic theory by economists who do not generally write for English language readers and, as a result, few of the articles are devoted to international economics *per se*. The publication contains, for example, a paper translated from French on "The General Principles

of Rate-fixing in Public Utilities" by Gabriel Dessus; Erich Schneider's article on "Savings and Investment in a Closed Economy" translated from Danish; a paper by George TH. Guilbaud on "The Theory of Games"; Jan Tinbergen's papers on "The Significance of Wage Policy for Employment" and "Some Remarks on the Distribution of Labor Income"; as well as a paper translated from Italian and written by Emilio Zaccagnini entitled "Simultaneous Maxima in Pure Economics."

The objective of the book then is to present articles in English translated from other languages and thereby fill a void which has long been realized but about which, until now, little has been done. Mr. Haberler believes that economists in English-speaking countries have neglected "what is going on in other languages." I am in hearty agreement with this view.

The book is still an experimental project and the Editorial Board of the International Economic Organization will welcome ideas and suggestions for improvement. This reviewer has one suggestion for improvement: Assuming the objective of the organization remains unchanged, I would recommend exclusion of articles which are strongly mathematical in content.

The reasoning behind this suggestion is not motivated by any bias toward mathematical presentations but by the nature of the publication itself. Mr. Haberler states: "The language barrier is not so vital in the case of econometricians because mathematics and statistics are internationally understood and when mathematics fails, English is generally used." Therefore, with only limited financial resources available, it seems the Editors might well consider including only those articles which cannot be understood without benefit of language translation. Using this approach, there are several papers in this issue which might have been omitted.

It should be pointed out that this book is less international than it appears. If it can be assumed that only member organizations may submit articles for publication, the only source of articles is Europe since this area alone publishes articles needing translation into English. This is a result of common use of the English language, on the intellectual level, in such countries as Pakistan and India. Thus, needing no translation, their articles do not appear in the publication. This leads to an alternative suggestion:

The association might see fit to expand their objective to include publications of papers originally written in English but seldom seen by Western readers. This approach would make the book more truly international in scope.

There is no question that this book is a significant contribution to economic literature. To my mind, a publication such as this, which attempts to promote a greater exchange of ideas across national and linguistic boundaries, merits the wholehearted support of all serious scholars. The International Economic Association and UNESCO are to be congratulated on their venture.

Wheaton, Maryland HARVEY J. WITHERELL

International Combines in Modern Industry. By Alfred Plummer. New York: Pitman Publishing Corp., 1951. Pp. ix, 309. $6.00.

A tentative list of 179 international cartel agreements, of which 109 included

American enterprises, was compiled by our State Department for the year 1939. While European thinking distinguishes between "good" and "bad" cartels, our conception of cartels and their equivalent as being bad, because they stifle competition, is firmly embedded in the legal structure of the United States. This explains the paucity of American literature in the field of international cartels. Our hearty and deep-rooted aversion to cartels has probably been intensified by books like Engelbrecht and Hanighan's *Merchants of Death*, where international armament combines and their thriving on war and preparation for wars are depicted together with the activities of international bankers who extend "their profit-sucking tentacles" into every part of the world.

Alfred Plummer's *International Combines*, first published in 1934, is neither pro nor contra cartels. The first two chapters describe the numerous types of combines among the producers of staple commodities. The dynamics of cartels through interlocking directorates are vividly illustrated through many examples such as the DuPont Corporation, which controls other companies that produce nitrate and nitro-glycerin and manufacture explosives, artificial silk, cellophane wrapping material, paints, varnishes, dyes, motion picture film and alcohol, and operate machine shops and foundries, real estate, hotels and a theatre. In addition to this, DuPont held in 1926 about 26 per cent of the common stock of the General Motors Corporation, through which it came into contact with Nobel Industries and the giant Chemical Industries and thus with the German chemical and explosives industries. This one illustration multiplied by 179 gives an idea of the economic potence and behind the scene powers of international cartels.

A combine, also called cartel, concern, trust, ring, Interessen-Gemeinschaft—community of interest—like I. G. Farben, is an alliance between independent business units to regulate by agreement prices, quantity and quality of output, standardization, and division of sales territories. The justification of this free enterprise mechanism is a belief in the wisdom of world rationalization of industry, of intelligent co-operation, superior to cutthroat competition and economic warfare, and, last but not least, a belief in the senselessness of overproduction. Thus, the followers of the cartel philosophy think that a greater regularity of employment of both labor and capital can be achieved.

The third and fourth chapter deals with the formation of combines as to incentives as well as to their obstacles. The incentives are obvious in cases of the expiration of basic patents which threaten to bring competition into the field. This would be avoided through the organization of cartels. However, the obstacles to cartels are innumerous, especially when producers and the various governments are not equally interested in the formation of international combines. In the fifth chapter Plummer elaborates on the conflicting interests between the home market, its protective tariffs and import quotas on one hand and the international combines on the other. Here unforeseen changes in protective tariff rates may throw the arrangements of international cartels into disorder.

The effects and tendencies of international cartels are discussed in the book's sixth chapter from the standpoint of the wage earner and consumer, including the small non-cartelized manufacturer. As a matter of fact, the cartel members, the technically efficient and inefficient alike, profit by the reduction of the

number of middlemen, of freight charges, import taxes, by the abolishment of dumping, by the exchange of patents and research, of technical and commercial information, with consequent results in greater productivity and in superior quality of product. At the same time the consumer's defense against exploitation through cartels is facilitated by the elasticity of his demand and by the existence of non-cartelized producers who will establish reasonable prices and efficient substitutes. Even a monopolistic cartel, argues the author, cannot keep prices high and stocks low through output control indefinitely in view of the always existing and competing cartel-outsiders. Furthermore, if an international cartel is successful in replacing anarchical condition, especially after expiration of patents, by planned production and elimination of economic crises, the social aspects of this economic rationalization are apt to improve. The author implies that the growth of international combines might help rather than hinder international trade unionism.

In his last chapter Plummer concludes that international combines can neither be outright condemned nor hailed and lauded. However he sees in crude nationalism and in a narrow interpretation of national sovereignty the chief hindrance to an intelligent attempt to bring consuming and purchasing power closer together. The tide of human affairs is still running strongly in favor of the forces of disruption. The author closes with the statement that the last world war marked the end of a phase in the history of international combines.

Since this book was revised, the Charter of the International Trade Organization, ITO, a unit of the United Nations, the first truly international code governing the conduct of international trade has been devised. Also, the climate of hate-torn Europe, which favored the institution of international cartels as the economic corrector of not always wisely arranged political boundaries, will logically encourage a march in cartel-like direction. The recent Schuman Plan of a Community of Interests places the steel and coal industry of six Western European countries under a single authority. Its objective is to substitute for the system of individual national markets of Western Europe a single common market under conditions in which the competitive winds can freely blow. The Plan's antitrust laws go farther and deeper than the antitrust legislation of the United States. Under these conditions people can buy and sell without being inhibited by national boundaries or discriminatory agreements. The Plan's organization reflects typical American democratic thinking. We have to admit that we needed the experience which international combines gave us in order to create a Schuman Plan which may be a first bold step toward a better economic setup than that initiated by international combines.

Georgia Institute of Technology ROBERT SCHARF

British Planning and Nationalization. By Ben W. Lewis. New York: Twentieth Century Fund, 1952. Pp. xi, 313. $3.00.

British Planning and Nationalization is a dispassionate analysis of the six years of economic development under the British Labor Party, written in much the same spirit as Calvin B. Hoover's *The Economic Life of Soviet Russia* and

Germany Enters the Third Reich. The books by Lewis and Hoover might, indeed, serve as the core materials for a course in comparative economic systems provided a book of equal merit on the economics of the private enterprise economy could be found.

Like Hoover's work, Lewis bases his report on first-hand observation together with a study of the available literature. In his first chapter he describes the machinery which has been set up to carry out England's variety of economic planning. Subsequent chapters are concerned with the nationalization of transport, electric power, and iron and steel, the distribution of industry, the national health service, housing, and agriculture.

As one reads Professor Lewis's book, he is impressed with the easy and sometimes almost inevitable steps which Britain took in the direction of nationalization. Much of the initiative which is presumed to characterize private enterprise had disappeared from the British economy long before the nationalization program was started (p. 47). The nationalization of the Bank of England, of civil aviation, of cable and wireless communication, and of gas aroused virtually no controversy and has involved little change in their operations (p. 48). Coal nationalization came about as a natural consequence of a series of events which seems to have made government control of the industry almost inevitable (p. 53). The private owners of the coal mines had been given every opportunity to put the industry on a rational basis, but they failed to do so (p. 57). Nationalization has not demonstrated any peculiar capacity to persuade men to work in the mines, but no one has suggested any alternative which seems to have prospects for early relief (p. 71). The situation in the transport industries was much the same. Following World War II the railroads were run down at the heels, and the general sentiment in favor of "transport unification, coordination, and integration" made nationalization in this area appear to be the logical step (pp. 76–77). Nationalization of the railroads is a closed issue in Britain today, but the nationalization of road transport remains a political question (p. 103). Government regulation and supervision of electric power began at the close of World War I, and the increasing regulation of the industry from that time made nationalization almost an inevitable consequence of the victory of the Labor Party in 1945 (p. 106). The nationalization of iron and steel represents a special case. It was the only industry to come under the nationalization program which was neither "in distress" nor a recognized "public calling" (p. 122); it is the one part of the program which the Conservatives may discontinue (p. ix).

British planning is not the blue-print variety with decisions handed down from a central bureau to be carried out according to detailed specification in plants and firms. The government provides a framework and sets goals in major categories, but the detailed day-to-day decisions are made by the individuals and firms themselves (p. 9). Positive orders to firms are virtually non-existent; controls are almost completely restrictive in nature (p. 19). It is still too early to evaluate the success of the nationalization program. "Nationalization has not brought the millennium to Britain, and it has not brought economic ruin; neither millennium nor economic ruin is in sight" (p. 133). "Clearly, national-

ization per se is no panacea; just as clearly, British experience has not demonstrated that its possibilities are illusory. A convincing record, for or against nationalization in Britain, has still to be made" (p. 280).

One is impressed again as he reads this book with the valuable asset which the British people have in *The Economist*, a conservative but an objective critic of the contemporary scene. An American counterpart is sorely needed. Lewis's book provides much valuable information and dispels many popular misconceptions of British socialism. It deals with matters of serious moment, and it deserves a wide audience. Mr. Lewis is professor of economics at Oberlin College, and one is tempted to generalize to the extent of observing that his book demonstrates that significant research can come out of a small liberal arts college, but the temptation must be resisted; Ben Lewis is an exception to most rules.

Florida State University CLARK LEE ALLEN

The Ethics of Redistribution. By Bertrand de Jouvenel. New York: Cambridge University Press, 1951. Pp. ix, 91. $1.75.

This book is challenging and instructive somewhat out of proportion to its size. Its purpose is to examine the ethical validity of redistributing incomes from higher to lower brackets—an examination to be carried out in abstraction from the allied and important question of the effect of redistribution on production.

The first conclusion the author reaches is that modern redistributionism—which term, incidentally is used as broadly synonymous with modern socialism—has long since departed from the high ethical ideal that marked its beginnings. Whereas in its origins socialism sought to restore the spirit of brotherly love that a capitalistic society had done so much to destroy, long association with a culture dominated by the ideal of a fuller consumption of the material things of life has forced it to succumb to the inevitable. The socialist onslaught on poverty today is motivated by a "deep-rooted appreciation of worldly goods" (p. 16).

Our author is quite emphatic about what he thinks of the ideal of modern socialism: "there is no question of ethics here. The end-product of society is anyhow taken to be personal consumption. . . . Nothing quite so trivial has ever been made into a social ideal. . . . What is to be held against them is not that they wish to transform society . . . but that they have renounced any essential transformation. . . . In fact the mode of thought which tends to predominate in advanced circles is nothing but the tail end of nineteenth century utilitarianism" (p. 48).

A second conclusion reached is that redistributionism carried to its ultimate conclusion must eat deeply into even the lower middle class standard of life. Professor de Jouvenel suggests that redistributionists assume that it is only the higher incomes that will have to be leveled down, but that when the matter is considered realistically, it turns out that this is not so.

There are important consequences of this conclusion. For example, it is insisted, socialism must build its case for greater economic well-being upon the foundation of the diminishing utility of money. When in the process of redistributing income it is found that the social values of the middle class must go,

the socialist reverses his field and declares that these values must be made available at state expense. Thus, in a very real sense, the socialist uses the value system of an inegalitarian society as the basis upon which the egalitarian society of the future is to be built. Again socialism betrays its enslavement to the prevailing culture pattern.

Third, our author concludes that since the state does find it necessary to replace the values that its tax program destroys, redistribution becomes in practice a redistribution of power from the individual to the state. Redistribution, thus, serves its fundamental purpose in providing an incentive for the toleration of the growth of public expenditure. "A change of mind has been induced by redistributionist policies, the greatest gainer from which is not the lower-income class as against the higher but the State as against the citizen" (p. 74).

In connection with this conclusion Professor de Jouvenel goes into the effect of some of the tax policies of redistributionist governments. He points out that corporations are taxed on net income while individuals and families are taxed on gross income. The effect of this is all the more to turn the natural citizen into a mere maintenance man, while turning the responsibility of providing for the higher (more expensive) social values over to the state and such artificial individuals as the modern corporation. "It is appropriate here to recall that the so-called Dark Ages began with the flight of individuals into the protection of lords or chapters. . . . We live at a time when everything conspires to push the individual into the fold" (p. 67).

Overall our author is making the point that "progress is linked with the existence of *elites*, the production and upkeep of which are costly, and the incomes of which could not be flattened out without great social loss" (p. 59). If it comes to a choice between sustaining *elites* by the toil of the sweated masses or doing without them, there is little question which Professor de Jouvenel would choose. And as for turning over to the state (or any other institution) the responsibility for finding and developing *elites*, this is clearly felt to be an impossible alternative.

Stimulating though this little book is, and much as one may agree broadly with its underlying *motif*, there is one thing about it that is troublesome. Since modern redistributionism has been formed by the culture that surrounds it, it would seem that the trouble does not really lie with redistributionism at all. One is inclined to think that the real culprit is modern democracy and its institutional organization. Is it not clear that, socialism aside, we are living in an anti-*elite* age? The very worthwhile ideal of equality of opportunity seems everywhere to be distorted by a questionable identity of treatment. In short, in this little volume Mr. de Jouvenel associates himself with an impressive group of thinkers which deplores, not the importation into our culture of forces alien to it, but the underlying trends within that culture itself.

University of Georgia HOWARD R. SMITH

Soviet Prices of Producers' Goods. By Naum Jasny. Stanford, Calif.: Stanford University Press, 1952. Pp. vii, 180. Paper, $2.00.

The double standard which prevails in Soviet society generally where relations

between the individual and the state are involved finds its economic expression in the dual price system maintained by the Soviet government for the distribution of consumer and producers' goods. Not only are these two categories of goods priced according to quite disparate standards by Soviet planning agencies, but even inflationary influences are permitted to enter into these two groups of products at a greatly varying rate. Thus, in the basic ten-year period of Soviet industrial expansion (1928–37), wholesale prices of producers' goods increased 75 per cent, while the price of consumer goods at the same stage, even before the addition of the universal and steep "turnover" (excise) tax, rose at least 250 per cent.

Dr. Jasny, who had previously examined the operation of price-making in the Soviet economy in his *The Soviet Price System Era* (reviewed in S. E. J., July 1952) has now rounded out his analysis of Soviet prices by devoting a separate study to report his findings on the chronically unstable costs to the Soviet government of metals, materials, machinery, and construction since the simultaneous launching of large scale planning and maximum industrial expansion in 1928.

For this undertaking Dr. Jasny has explored a vast amount of obscure operational manuals and intra-mural discussion material intended for the use of Soviet management personnel. His examination of this presumably innocuous and uncensored material was carried out by Dr. Jasny with the searching curiosity that students in the field have become accustomed to expect from this indefatigable scholar. In the process of presenting this detailed mass of cost data, the author has, furthermore, incorporated a liberal amount of interpretative comment and obiter dicta, in ample variety, which at times transform this technical monograph into an essay on the vagaries of the state as entrepreneur in the Soviet Union.

As a result, even the reader who is not directly engaged in a search of information concerning the evolution of the Soviet price index will find his understanding of Soviet economic reality considerably enhanced by the facts from the record of Soviet price-fixing as marshalled by the author. From this body of detailed price material, selected with a view towards illuminating the major cost factors in Soviet capital investment, the reader will get a fairly well-documented account of the recurrent failure of the Soviet economic administrators to cope with the inflationary forces generated by the very operation and nominal control of a centralized planning apparatus over the totality of the country's economic activities, including those carried on under conditions over which the central authorities do not exercise effective control. In the case of construction, for example, local building organizations which cannot obtain their materials from the more efficient, central plants "have no choice but to produce their own without adequate equipment and on too small a scale—in effect, at any cost" (p. 78).

As revealed in the interpretive passages of this study, Dr. Jasny's expectation regarding the capacity of the Soviet planning system to pursue a rational price-making policy was not unduly high. However, as he expresses it, he "did not expect to encounter chaos. Yet raising prices of common (grades) of steel 3-fold

in one year (1949) and cutting them 37–47% the next year (1950) reflects nothing but chaos, especially if it occurs after 29 years of planning and 22 years of full-scale planning. This example is one among an endless number" (p. 9).

The present reviewer must admit having been baffled by an occasional interpretation of a price change by the author of the study. For example, Jasny appears to have treated the 1950 reduction in the price of roofing steel and paper (p. 62) as if it reflected a drastic improvement in the availability of steel rather than an administrative retreat from a somewhat untenable price position bravely assumed in the preceding year's major price alignment. There is more compelling evidence from the performance of Soviet industry in 1951 that the output of many types of vital civilian machinery is still retarded, among others, by a shortage of steel.

The achievement of stable prices on goods that form the main ingredients of the Soviet program of economic expansion, Jasny indicates, has been repeatedly sought by the Soviet government as a matter of policy. In daily economic practice, however, costs of all factors required for large-scale capital investment, and construction costs in particular, have been inching up nevertheless. The reaction of the Soviet government to the steady pressure against its fixed prices was to authorize certain "permissible additions" to the planned expenditures of state enterprises. As a rule, these official accommodations to the changing cost picture were too slow to keep up with the many competing demands for materials and equipment of all types. It is not surprising, therefore, to find in an official publication of Gosplan (State Planning Committee) a report about a major Soviet building organization which, in order to purchase 2.5 million bricks, undertook to deliver to the seller, over and above the official price, the following extras: 11 tons of kerosene, a variety of other commodities, plus 100 workers to be maintained at the expense of the buyer.

In the main, Jasny reports that as a result of his own survey of the large body of price material he has "lost the feeling of navigating without a compass in the ocean called Soviet Socialist economy." He warns, however, that these data although rewarding, are neither complete nor reliable enough for the task he had hoped to accomplish. The price series he was able to construct, he points out, cover a limited number of items, are full of gaps, with the result that the implications are at times uncertain. Except for building materials, he found it impossible, for example, to construct a weighted price index. A major gap is constituted by the entire field of machinery, a matter of particular concern to Dr. Jasny who had hoped to devise a method of combining the index of construction costs and the price indexes of machinery into an index of costs involved in Soviet capital investment.

U. S. Department of Commerce L. M. HERMAN

Taxation and Business Concentration. By J. Keith Butters and others. Princeton N. J.: The Tax Institute. 1952. Pp. viii, 264. $5.00.

With the publication of the papers presented at its symposium on taxation and business concentration, the Tax Institute presents to both students and

practitioners the considered opinions of many of the best minds in the field. The present volume constitutes a collection of 31 essays. These papers are concerned with the effects of taxation upon corporate mergers, the relationship between taxes and the retention of corporate earnings, the growth and importance of tax-exempt enterprises, the effects which personal levies have upon business growth, and the theory of business taxation.

Among the contributors to this volume are well-known academic men, businessmen, and representatives of the legal and accounting professions. The list includes Keith Butters, Alfred Buehler, Beardsley Ruml, Edward N. Polisher, and Clarence Turner. The papers frequently are enriched by the first-hand experience which the authors have had in tax practice and research.

It is impractical to provide a critical review of each separate essay. They vary greatly both in length and content. Frequently, papers dealing with similar subjects provide conflicting and contrasting points of view. While a few of the papers appear to represent mere appeals to emotion and bias, the majority of the works are based upon facts and logic. Thus, taken as a whole, the essays of the present volume are reasonably balanced and provide many insights into important tax problems.

Several of the papers are of special interest. Keith Butters presents a valuable summary of the work which he and other members of the faculty at the Harvard Graduate School of Business Administration have completed in the general fields of corporate concentration and taxation. H. M. Robertson provides an interesting analysis of the effects which the tobacco excise has had upon price competition in the cigarette industry. Valuable, if conflicting, evidence of the growth of the cooperative movement is presented by Clarence Turner and Karl Loos. A careful appraisal of the various methods which the Bureau of Internal Revenue uses to appraise closely held business interests for estate tax purposes is provided by Edward N. Polisher. An insight into the effects which the excess profits tax has upon managerial decisions in large corporations is provided by Beardsley Ruml, and the present status of the theory of business taxation (or lack of theory) is examined by Alfred Buehler.

A bibliography adds to the usefulness of this volume. As with many books which deal with tax problems, the present work suffers because of important changes in tax statutes and regulations which have occurred since its preparation. Nevertheless, it provides much useful material of an enduring nature, and the program committee for the symposium, headed by A. D. H. Kaplan, is to be commended for the quality of the material presented.

University of Florida JOE S. FLOYD, JR.

County Income Estimates for Seven Southeastern States. By John Littlepage Lancaster. Charlottesville: Bureau of Population and Economic Research, University of Virginia, 1952. Pp. xii, 246. $5.00.

Methods for Estimating Income Payments in Counties. By Lewis C. Copeland. Charlottesville: Bureau of Population and Economic Research, University of Virginia, 1952. Pp. xii, 108. $3.00.

These two volumes are the first fruit of the Conference on the Measurement of County Income, organized in June 1949 by a group of research workers from the state universities of Virginia, Kentucky, North Carolina, Tennessee, Georgia, Alabama, and Mississippi and from the Tennessee Valley Authority. Working independently for the most part, but using similar methods, the research workers at each state university have allocated the National Income Division's estimated state income payments for 1939 and 1947 among the counties within their state. The county estimates are presented in the Lancaster volume; the Copeland volume describes the methods by which the state totals were allocated among counties.

The estimates have been prepared primarily for the use of business (chiefly marketing) and governmental administrators although resource development and research are also mentioned. Certainly market analysts have been avid customers for such county and other small area data as the various censuses and the tabulations of first quarter employment from the Bureau of Old Age and Survivors' Insurance tax returns. The income payments series is designed to measure the flow of payments from current economic activity to the residents of a specified area. It tends to be a comprehensive measure, and one that gives appropriate weight to the many facets of economic activity. Were reasonably reliable county income estimates available for the entire nation on a repetitive and timely basis, market researchers would welcome the opportunity to avoid the arduous, frustrating job of constructing satisfactory indicators from other available data. The results of an experimental study such as this, in which the most recent estimates are four years old, will hardly permit market researchers to dispense with existing tools. These estimates of county income, covering some 723 counties in 7 states for 2 years, should prove a valuable cross section for testing the persistence of relationships between income and such factors as first quarter employment, various population characteristics, and retail sales or sales tax collections which are now covered by available data.

In establishing and testing these relationships, the Conference on the Measurement of County Income, which has prepared these estimates, can be of material aid. The Lancaster volume, although devoting more space to a description of the changes in state than to county income payments, is rich in suggestions as to the direction fruitful analyses may take. Frequency tables show the distributions of counties by rate of increase, by city size, by leading industry, by type and importance of agriculture, and by proportion of Negroes in the population, together with appropriate mean per capita incomes. Although a volume devoted primarily to the presentation and description of a series of basic estimates is hardly the appropriate place, such analyses need to be carried much further.

In presenting the estimates, a praiseworthy attempt has been made to estimate the size of the errors which arise through the process of allocating a given total among the counties of a state. Clearly, this is a difficult undertaking and must depend in large part on the judgment of the estimators. Lancaster "estimates that the mean error in allocating the major elements of income does not exceed

2.5 per cent for wages and salaries; 5.0 per cent for farm proprietors' income; and 7.5 per cent for the income of non-farm proprietors, property income, and other income" (p. 18). These estimates seem low in view of the fact that in 1947 there was only $17.9 billion to allocate among the 723 counties; that the estimators had difficult problems of finding suitable allocators; and that some of the counties are estimated to have less than $1 million income, so that a 10 per cent error would amount to no more than $100,000. Shifting the residence of a single individual could account for such an error. Some investigators, who find both the national and state totals useful, would estimate the errors in the national totals to be at least as large, and the errors arising in allocating the national totals among states to be somewhat larger.

For the many users of these estimates who will have to make their own appraisals of the sources and effects of errors on their particular problems, Copeland has provided the kind of detailed record that they will require. The volume bears evidence to the careful, though often tortuous, manner in which the estimates were prepared; the detailed level at which allocations were made; and the extent to which both national and local bodies of data were tapped. The methodological recommendations of the Conference's technical committee and departures from these recommendations followed by various states when superior data were found locally or when data required by the standard method were not available are reported. The appendix contains the results of special studies of the interstate situs problem and construction wages in Kentucky and of mining wages in Tennessee.

Duke University FRANK A. HANNA

The Economics of New England: Case Study of an Older Area. By Seymour Harris. Cambridge: Harvard University Press, 1952. Pp. xvii, 317. $4.75.

Here is a book about a region written by an expert on that region. Professor Harris has taught and studied in New England for more than thirty years; he has served on numerous bodies inquiring into the economics of the area.

The book is both a diagnosis of the economic health of New England and a suggested course of treatment for the region's ailments. The author has drawn extensively upon data from many sources to produce a work crammed with statistics which back up the diagnosis. Ordinarily, so much in facts and figures would make for hard reading, but Professor Harris' facility in presentation results in the supporting data fitting so smoothly into the body of writing that the book is very readable.

The diagnosis is expertly done. Professor Harris traces developments historically, backs up his conclusions by factual data and, most important, places the factors of economic advantage and disadvantage for New England in perspective. He hits hard at unavailability of raw materials, high labor costs, inefficient management and high transportation costs; he points out that tax differentials, contrary to widespread opinion, are of minor importance in interregional competition.

The suggested course of treatment is not as well done as the diagnosis. Many

of the author's recommendations are pertinent—e.g., modernization of plant and of management and labor attitudes, drive for new and growing industry to replace plants lost to other areas, for additional power and for lower transportation costs at least partly through federal programs. But certain suggestions which are of key importance seem to be bad economics.

Much is made of "unfair" competition from other regions, especially the South. The author cites particularly subsidies and tax systems oriented toward business advantage, deliberate policies to prevent unionization, and inadequate social welfare programs in the South as "unfair" advantages. He states that these result in "excessive" shifts of industry to the South from New England with resultant economic waste to the nation as a whole, and that most writers on southern industrialization have overlooked or understated this economic waste. His prescription (p. 4), "The case is strong for greater control of industrial location by central government; and as the United States Government expands its control over the economy through increased spending, social security programs, resource development, wage legislation, and the like, the Federal Government will increasingly influence location and reduce the waste and deterioration of standards involved in excessive migration."

Mr. Harris overstates the southern attitude toward unionization and its "business orientation." The southern shift of industry seems not so much away from unionization as such but away from the great rigidities of New England labor, *and of management*, which inhibit increases in productivity even when accompanied by less physical effort—as Mr. Harris himself documents rather fully.

Southern social programs are behind those of New England mainly because of lower income rather than because of deliberate policy. Actually the *burden* of such programs in the South probably is much heavier than in New England. Mr. Harris' criticism here is a little like chiding a family for not sending its boys to Harvard when all that can be afforded is to provide board and room so the boys can work their way through local schools. When income rises the social programs are likely to rise also; the drive for industry will help achieve these higher standards.

Finally the "greater control of industrial location by central government" seems a very weak reed indeed. Here would be a real roadblock to economic progress, a major device to promote a static rather than a dynamic economy. The buggy makers of the early 1900's would have liked such a system to slow down or prevent the rise of the motorcar.

One additional point deserves comment. Mr. Harris writes of the New England balance of payments and comments at length on the "Treasury drain" from the region. By this he means that the Federal Government takes more from New England than it puts back in. The implication is that New England deserves more federal money than she gets. Against Mr. Harris' comments on a good tax system which leans on income taxes and the principle of ability to pay, this argument seems inconsistent. High income New England might well expect a "Treasury drain" just as does a high income individual.

But despite these features, the book is good and well worth reading. Southerners particularly should find it interesting.

St. Louis, Missouri FREDERICK L. DEMING

Commercial Bank Activities in Urban Mortgage Financing. By Carl F. Behrens. New York: National Bureau of Economic Research, 1952. Pp. xix, 131. $2.50.

This monograph is one of a series of eight studies in urban mortgage financing being published by the National Bureau of Economic Research as part of its financial research program. It is thus a rather narrowly circumscribed, but nonetheless significant, part of a much larger investigation.

Since the principal contributions of the book are based on data acquired through a sampling of the urban mortgage loans held by 170 commercial banks as of mid-1947, the adequacy and representativeness of the sample are of vital significance. Although the rate of nonresponse among the sampled banks was high, confidence in the representativeness of the sample is strengthened by the fact that nonresponse was least among banks with the heaviest mortgage holdings. The reliability of the sample is further supported, in an introduction written by R. J. Saulnier, by comparing its results with those of a more comprehensive sample of life insurance mortgage lending activity, and, at a number of points, with a complete enumeration of the real estate loans of insured commercial banks made by the FDIC in mid-1950. The author, nevertheless, shows commendable restraint in generalizing from the data, and is careful to explain their limitations. It is felt, however, that they form "a basis for indicating broadly the nature of urban mortgage loans made by banks since 1920 and of those held as of June, 1947," and as such, help to fill a critical gap in financial knowledge.

Behren's study begins with a brief survey of the legal framework of urban mortgage lending by commercial banks, and the role of commercial banks in the urban mortgage market. This is followed by a description of the urban real estate loans held by commercial banks as of June, 1947, covering such loan characteristics as type of property, period of origination, size and type of loan, contract terms and interest rates. Changes in contract terms since 1920 also are analyzed, indicating, for example, that on one- to four-family dwellings the average contract length prior to 1934 was three years, with a loan-to-value ratio of about 50 per cent, while by 1946 the average contract length was 12 years and the average loan-to-value ratio 68 per cent.

The chapter on urban mortgage loan experience of commercial banks from 1920 to 1947 presents valuable information on the frequency with which loan contract terms were modified, on foreclosure experience, including gains or losses on liquidation of foreclosed properties, and on expected and realized yields, and loss rates. The final chapter, and in many respects the most significant, surveys the net returns earned by commercial banks on their portfolios of urban mortgage loans, after costs of loan acquisition and servicing. With due regard for the limitations of his data, the author concludes "that the costs incurred by commercial banks in the operation of mortgage loan departments would be in the neighborhood of 1.25 to 1.50 per cent of the amount of their average loan invest-

ment in years of relatively high lending activity," and that "a net return in the general vicinity of 3.00 per cent after loss reserve is indicated for this type of bank investment."

In spite of the smallness of the sample, the study presents hitherto unavailable information on an important segment of commercial bank loan activity, and should prove a valuable addition to the technical literature on this phase of commercial banking, as well as, with the other studies in the series of which it is a part, an important contribution to the field of urban real estate finance.

Emory University ALBERT GRIFFIN

Human Resources: The Needs and the Supply. By Dael L. Wolfle and others. Pittsburgh, Pa.: University of Pittsburgh Press, 1951. Pp. vii, 64. $3.00.

Human Resources is comprised of five main addresses given at a Conference on Human Resources and Higher Education sponsored by the University of Pittsburgh in May 1951. Three of these lectures are grouped under Part I—Needs for Scientific and Specialized Personnel, and two under Part II—The Supply of Human Resources.

There is much of interest to be found in this volume. However, it is related to specialized human resources and, probably, the title should reveal that emphasis.

In view of the fact that most general comments would not apply to more than one of the five lectures and that limitation of space does not permit detailed discussion of each lecture this reviewer will be content to state briefly the conclusions of each of the five lectures.

Part I—Needs for Scientific and Specialized Personnel

Future Demands was treated by Mr. Dael L. Wolfle, Director, Commission on Human Resources and Advanced Training, by means of extrapolation of trends of age groups, number of specialists trained and number of trained specialists needed. He estimated that our needs for "scientific and other trained specialists freshly out of college" will be 300,000 in the year 1960. Mr. Wolfle pointed out the shortages arising from training too few specialists and the frustrations from training too many. However, he would rather err on the side of training too many than training too few.

Military Needs for Scientific and Specialized Personnel was discussed by Mr. Dwight Chapman, Executive Director of the Committee on Human Resources, Research and Development Board, Department of Defense. He stated that activities of the Research and Development Board made use of approximately 50,000 scientists and that prediction of the future needs in this field would be very difficult. Mr. Chapman advanced the idea that part of the scientific personnel should be able to perform administrative duties because, in many cases, decisions are made by non-scientific personnel who do not understand the problems involved.

The American Corporation and Human Resources was the topic which was explored by Admiral Ben Moreel, President of Jones and Laughlin Steel Com-

pany. Admiral Moreel extolled the corporation as a device for making efficient use of savings and capital in the development of human resources.

Part II—The Supply of Human Resources

Identification, Encouragement and Development of Talented Youth was examined by Mr. Henry Chauncey, President of the Educational Testing Service. Mr. Chauncey, who gave much weight to *Identification* in his title, maintained that tests given at the end of the eighth or ninth grades prior to the time when many students drop out of school prove very helpful in the identification of talent.

Present Resources and Public Policy was discussed by Mr. M. H. Trytten, Director, Office of Scientific Personnel, National Research Council. Mr. Trytten, after investigation of related information, indicated that there is a shortage of highly trained specialized personnel.

Office of Price Stabilization, E. W. Eckard
Washington, D. C.

Contemporary Collective Bargaining. By Harold W. Davey. New York: Prentice-Hall, 1951. Pp. xi, 532. $5.50.

The rapid growth of unionism in recent years has created wide interest in the subject of collective bargaining. The demand for material on this important subject is considerable and to meet this demand a number of books have appeared recently dealing with the various phases of employer-employee relations. The book under review is one of the latest to make its appearance.

The book seeks to cover the many complex union-management problems that are constantly arising in a highly unionized economy. In doing so the author gives both sides of each issue and then expresses his personal views on the many controversial issues. Some of the most important issues dealt with are: bargaining unit issues and problems; managerial authority and the scope of collective bargaining; structural wage problems; negotiated pension plans; collective bargaining, full employment and inflation; the impact of public policy on collective bargaining and many others.

The author realizes that the dynamic nature of collective bargaining causes factual material to become dated rather rapidly. As a result, he has selected for discussion problems of continuing significance. His approach is basically analytical rather than descriptive. This approach adds significantly to the value of the book since far too many books on this and related subjects place too much emphasis on the descriptive approach.

The author has given considerable attention to three problems which he believes are of general significance due to the rapid growth of union strength and power. These are: "1) relating collective bargaining policies to a national objective of maintaining full employment without secular inflation, 2) the relationship of centralized bargaining structures to the problem of democratization of industrial relations, and 3) the requirements of achieving stable industrial peace." While he does not make any substantial contribution to the solution of these important problems, the author does set forth the problems in a very interesting and understandable manner.

At the end of each chapter is an up-to-date bibliography covering the subject under discussion. There is also a check-list of subjects covered in contemporary collective bargaining. These features make the book a valuable guide for those interested in research in the field and in helping people faced with the problem of writing new collective bargaining contracts.

The appendixes contain the complete text of the contracts now in force between Swift and Company and the United Packing House Workers and the 1950–1955 master agreement between the General Motors Corporation and the United Automobile, Aircraft, and Agricultural Implement Workers of America. The 1947 Labor Management Act is also reproduced in full.

The book will not only serve as a good text in courses in collective bargaining but it will also serve as a valuable guide for both management and the unions in dealing with some of their most difficult problems.

University of Virginia GEORGE T. STARNES

Industrial Relations in Sweden: Some Comparisons with American Experience. By Charles A. Myers. Cambridge, Mass.: Massachusetts Institute of Technology, 1951. Pp. iii, 112. $2.00.

In this brief report Professor Myers summarizes his impressions which resulted from an intensive two-months' study of Swedish industrial relations. He does not attempt a complete analysis such as has already been done by other writers, nor does he attempt to bring up to date the two earlier studies by Robbins and Norgren. He also keeps in mind the sub-title of the book, which is "Some Comparisons with American Experience."

Following brief explanation of the background of Swedish industrial relations the author presents his findings on management attitudes and approaches, the nature of collective bargaining, some collective bargaining problems, labor-management committees, the foreman's position in management, and some miscellaneous personnel policies and procedures. In the summary chapter he describes similarities and differences between labor relations in the United States and Sweden.

The fact that so many subjects are discussed in 112 pages may give the impression that Myers has been superficial in his presentation. Such an impression would be wrong. To be sure this is no statistical study, but is what it purports to be, namely, the impressions of a trained observer based upon interviews with people in management, labor and government. With his keen understanding of American labor relations and personnel management, Professor Myers has been able to point out the similarities and the differences between our situation and that of Sweden.

Both American management and American labor leaders not yet acquainted with Swedish procedures will find much of interest in this report. Management will find, for example, that Swedish management does not "view with alarm" the existence of industry-wide bargaining. Labor, on the other hand, may find it hard to believe that union security and the check-off are not found in Sweden.

Of equal value to his discussions of collective bargaining and trade unionism are the author's observations on personnel management, and the foreman's

position in industry. One is struck by the similarity between the two countries in the existence of problems in these areas.

Professor Myers concludes his report with the observation that "union-management relationships are more mature and developed in Sweden than in America, while management attention to plant-level industrial relations (personnel administration) is more recent in Sweden than in America."

The book is more valuable to those who have studied other reports on the Swedish system of labor relations. Yet, as the impressions of a trained observer, the report should be helpful to Americans who seek the causes of industrial peace.

Duke University FRANK T. DE VYVER

Labour Policies in the West Indies. Geneva: International Labour Office, 1952. Pp. iv, 377. Paper, $2.25.

This is a factual study of labor conditions and labor legislation in the Caribbean territories of France, Netherlands, Great Britain, and the United States. Even for purposes of comparison no attempt is made to present material about the independent states in the West Indies or Caribbean areas. The title, therefore, is misleading, but the introduction makes it clear that the report is limited.

Because the study covers so many different countries, the problem of presentation of the material has been most difficult. Throughout the book, however, the authors have presented broad generalities about the whole area and have woven into the pattern of generalities the necessary mass of details about the individual territories.

Economic and sociological background material about the area is presented in the first two chapters. Such chapters are essential to this study for the reader can get little out of the later discussions of labor legislation and social insurance without an understanding of the basic economy of the region. Furthermore, as the authors say (p. 18), "some appreciation of the family structure and of race relations is a pre-requisite for any understanding of some of the factors which must inevitably shape labour policies in West Indian territories." In chapter two, wartime and post war trends are discussed. These trends include the beginning of regional cooperation and the increased participation of the peoples of the area in framing and executing the policies affecting them. We are left with the feeling, however, that the economic problems of population pressure and low productivity make living and working in many parts of the Caribbean area very difficult for the native populations.

After discussing several manpower problems in the area, the authors describe what they term "the machinery of industrial relations." That subject includes a discussion of government labor administration for industrial relations, the extent of union organization, and the development of arbitration and mediation services. Apparently, trade unionism has not spread in the West Indies as rapidly as might have been expected. At any rate, the report indicates that the natives have not used collective bargaining as much as the International Labour Office reporters think is advisable. Throughout this discussion one senses that the

attempt to transplant the mature collective bargaining of England or the United States to more primitive cultures has been a failure. Yet, the British colonial policy, at least, has been to aid and encourage the development of labor unions and employer's associations.

In the following two chapters the authors present factual information regarding wages, hours, and conditions of work in the area, and a study of the extent and the regulation of the services of women, children, and young people. On these points, generalizations are useless because of the wide differences among the countries surveyed. "In the West Indies," say the authors, "the most striking feature of the existing position is the wide range of variations of such standards" (p. 239).

In the chapter on social security, the authors recognize a fact they seemed to have overlooked in their study of collective bargaining, namely, that institutions which develop in one situation cannot always be transferred intact to a different situation. After discussing the facts about social security and such related matters as public health and public welfare, the report concludes with the following: "General economic and social conditions in the West Indies, however, necessitate a certain degree of caution in applying to those territories systems devised in the first instance for industralized and relatively prosperous communities" (p. 272).

The longest chapter in the report is called "Labour Legislation." Herein is traced the general pattern of labor legislation in the West Indies rather than an exhaustive digest of such legislation. To some extent, this chapter provides a summary by country of the specialized material presented in earlier chapters, but other legislation is also discussed.

In the final chapter the authors briefly consider the extent to which labor policies in the West Indies meet ILO standards and examine the technical assistance which might be provided by the International Labour Office and the United Nations.

This is certainly a report which must be studied by West Indian governments so that they can seek to better the conditions in that area. It is also a valuable factual study of labor conditions and government regulations in an underdeveloped area. By the study of this document, therefore, students of economic development and labor economics can gain a real insight into the basic problems of such an area.

Duke University FRANK T. DE VYVER

Measures of Business Change: A Baker Library Index. By Arthur H. Cole. Homewood, Ill.: Richard D. Irwin, 1952. Pp. xii, 444. $7.50.

Dr. Arthur H. Cole, the author of this book, is librarian of the Baker Library, Graduate School of Business Administration, at Harvard University. In the Preface to his new book, the author points out that "the original impetus to the preparation of the present volume came from the desire to bring to date the *Index to Business Indices*, edited by Professor Donald H. Davenport and Miss Frances V. Scott and published in 1937. However, this re-survey led so far and in so many

directions different from those followed by Professor Davenport and his associate that soon my Collaborators and I abandoned the idea of pretending this book to be a revision of the earlier one."

Dr. Cole, in his new book, has redefined the term index (of change) "to embrace various types of relationships—not merely relationships of successive quantities or values to a selected base—but also percentages of successive quantities or values to a known or estimated aggregate, as, for example, the proportion of freight cars awaiting 'classified repairs', and likewise composite values, such as changing average prices of eight grades of wool or the average weekly earnings of production workers in manufacturing industries."

The book starts out with a list of 449 indexes listed in the order of their presentation, together with the names of their compilers. Then follows a reference list of basic sources and an alphabetical list of the compilers of the indexes and their present addresses.

The main text is divided into two parts: Part I: National Measures of Change, and Part II: Regional and Local Measures of Change. Part I is subdivided into Volume of Business, Commodity Prices, Construction Costs, Employment, and Finance. Part II is subdivided into Multi-Regional Measures and into eight subregions of the United States.

For each index is shown the subject to which the index belongs. For example, *Steel Activity* indicates the title of the index, the name of the compiler, the frequency of current publication (weekly, monthly, or annually), the location of the current data (where to find current data), the location of historical data (where to find previous data), the period of years covered by the index, and a detailed description of the composition of the index, its base and similar information.

A general index at the end of the text permits quick orientation as to the contents of the book.

In the words of the author: "Reports of appreciable fullness have been made of all known private series, and perhaps a greater emphasis given to them than on the average to governmental items." As to the latter, 22 federal bureaus and agencies are listed as compilers. The author has limited the citation of governmental items because of "the existence of the excellent volume by Hauser and Leonard on Government Statistics for Business Use, published in 1946." The author has also restricted his list of indexes "to currently continuous series, making no attempt to cover measures of changes that have existed some time in the past." Furthermore, his attention has been confined to the American area only.

This book impresses me as a valuable handbook for quick reference. It is helpful to business men and economists, as well as to students, who wish to know the number and type of available indexes which measure business changes, and where to locate any particular index. The division into National, Regional and Local Measures of Change is of distinct help to analysts interested in such measures of change—data which are often difficult to locate at short notice.

University of Florida HENRY G. HODGES

Committee Decisions With Complementary Valuation. By Duncan Black and R. A. Newing. London: William Hodge & Co., 1951. Pp. vii, 59. 10s. 6d.

The monograph begins with a preliminary statement of "The Assumptions and the Argument," which seems to be the most interesting part of the monograph. Various cases are described in four sections which carry in all a series of 49 illustrative drawings. Cases of discrete variables and cases of continuous variables appear in turn. The problem in each case is to show that a committee decision exists in cases where each member of a committee has a proper order of preference for each motion of a given set.

The initial conditions can be stated more briefly as follows. Given a committee composed of A_i, B_j, C_k, where i, j, k, give orders of preference for each of a set of n motions. Runs of equal preference are admitted for i, j, and k. For example, let $i = 1, 2, 2, \ldots n - 1$. A majority decision is reached on some motion $m \leqq n$ in one of four possible ways, where the committee approves motion m by $A\ B$; $A\ C$; $B\ C$; or $A\ B\ C$.

It is obvious that decisions exist like A's preferences $i = 1, 2, 3$, and B's preferences $j = 1, 3, 2$. It is equally obvious that no decision exists in cases like $i = 1, 2, 3$, $j = 2, 3, 1$, and $k = 3, 1, 2$. For $n > 3$ the failure may occur in many ways. Obviously a decision is a function of the three orders of preference on the part of A_i, B_j, and C_k. This situation presents an interesting question which is not discussed in the monograph. What is the probability of a majority decision for motion $m \leqq n$ where the orders of preference are not known? To argue that decisions exist for properly ordered preferences seems to labor an obvious fact. The business problem is to determine a best decision and whether a given set of motions will lead to that decision.

In the discussion of continuous variables it is difficult to see how an infinite set of motions could appear before a committee. We seem to have a theoretical discussion which would not occur in committee practice. The monograph deals with continuous functions by using derivatives to characterize points of contact on curves and surfaces in the customary manner. For those interested in a mathematical discussion of curves and surfaces the monograph should be of some interest.

University of Alabama C. D. Smith

The Art of Administration. By Ordway Tead. New York: McGraw-Hill Book Co., 1951. Pp. xvi, 223. $3.75.

Scratch a competent administrator, and you will find an honest-to-goodness democrat—with a small "d." Emphasis must never be placed upon the administrator as an autocratic "strong man." The art of administration lies in coordinating the aims of free and human individuals who, above all, are autonomous and self-respecting equals.

Without a firm understanding of democratic human relationships, no man for long can be an effective leader in mid-century U.S.A. Every aspiring administrator should first review the lessons of democracy.

Mr. Tead's exposition is in the vanguard of ideas which are slowly being forced to the surface because of the interdependent and administrative nature of mod-

ern society. His purpose is twofold: first, to improve understanding of what administration is and how it can become effective under the challenges of American life; secondly, to explain how we can live together purposefully in a technological society.

Organizations, he explains, arise because people deliberately associate themselves to accomplish various aims. These are commonly legal, functional, technical, profit-making, personal, and public.

Such aims, however, must be acceptable to all persons in the organization. Without acceptance, harmonious and productive relations for both individuals and groups will be limited. More important, the accepted aims must have social values. They must be related to what human beings hope to get out of life. Individuals avidly want to be accepted as members of a community. They wish to be free to express themselves as individuals.

The administrative job is to create the environment in which all this is possible. Failure will cause the individual "to seek to register on some other front of living and invest as little as possible energy in the work situation or invest it there in abnormal or destructive ways" (p. 49). Success will assure that "the individual's fullest use of his best talents is prompted under conditions which he has helped to determine and which he cherishes because he finds them helpful to his most satisfying self-expression and growth)" (p. 59).

This is fully commensurate with democratic means and ends. However, there are, as we well know, too many lukewarm democrats in administrative circles. Mr. Tead effectively disposes of the fair-weather friends, the doubting Thomases, and the intellectual debaters who are for democratic leadership, but. . . .

At this point, more specific matters are taken up. One of these is the range and variety of administrative responsibilities. A second is the place of power and authority. The discussion skillfully impales the egocentric eager-beaver whom we have erroneously come to worship on Hollywood celluloid as the master of big business. Call him what you will, tycoon or tyrant, he bears the seeds of his own destruction by reason of personal ineptitude for the administrative function. A third matter is the personnel aspect of administration. A fourth and final set of ideas is related to collective cooperation by the parties in an organization and the means for attaining it. This is a process of learning to live together. It is fostered by administrative action which creates structures for "direct, face-to-face contacts, early in advance, a reciprocity of creative response, and the assurance of continuity in relations" (p. 181).

The author offers competent analysis in an area too often beset with descriptive nonsense. We see more clearly the basis for so many of our chronic daily problems. The challenge for colleges of business administration boldly marches across the pages of this book. Those who are responsible for filling administrative posts will learn here that an administrator cannot be just "any old kind of a guy" who should be rewarded with a promotion because of seniority. He must be a sensitive human being capable of functioning democratically.

Michigan State College KARL A. BOEDECKER

Policy Formulation and Administration: A Casebook of Top-Management Problems in Business. By George Albert Smith, Jr. Homewood, Ill.: Richard D. Irwin, 1951. Pp. x, 653. $5.50.

This book contains thirty cases selected by the author from a somewhat larger number of cases being used in a course known as "Administrative Policy" at the Harvard Graduate School of Business Administration. Some of the cases have been written by the author and others by his present and former colleagues at Harvard. Like all Harvard cases, the ones in this book represent actual business situations which have been the subject of study and analysis by experienced case writers. As with other Harvard cases, also, the ones selected for this publication display characteristic thoroughness, accuracy of reporting, and clarity of presentation.

Even though a casebook, this book is a significant contribution to a field of knowledge which has received altogether too little attention. No other casebook so successfully deals with this field.

The scarcity of high-grade materials for classroom use in the field of policy formulation at the general management level doubtless accounts in large measure for the relatively scant attention which universities have given to the theory of business management. A casebook on policy formulation is in reality a casebook upon the theory of the functions of managership. And it is in this area of human knowledge that the universities have fallen behind the progress made by business men and public administrators who have worked with increasing vigor and interest to seek out principles which underlie the job of the manager. Although university interest in this field has been growing, it is a noteworthy event when Harvard makes available in book form a large number of comprehensive cases on policy formulation, cases which have been well developed and tried in the management program of that university. Both Professor Smith and the publisher should be congratulated for having published these cases. It is hoped that the availability of material will lead to the wider establishment of courses in the theory of general management to supplement the already widely taught curricula in such functional fields as finance, marketing, production management, and personnel management.

According to the author, these administrative policy cases are designed to present actual situations where top management has been faced with a complicated problem calling for solution. Since there are seldom any "right" answers in the area of important business decisions, the author purposely includes neither a list of suggested questions with each case nor suggests any "official" or "approved" solutions. It is the author's belief, to which this reviewer subscribes, that the merit of these cases is that they force on the student the same kind of approach to problems which the responsible business manager must utilize. This is certainly good discipline and good training, although there will be many teachers who will find that their students have not reached a point of sophistication in business policy matters where they can handle these cases. Because of this problem, the author might have done well, and would have made the cases more widely useful, had he formulated some leading questions on each case in order to point up the policy issues involved.

In defense of the author's exclusion of devices which might guide or channel the student's analysis of the cases, it should be pointed out that the author has aimed at materials for the more advanced students. He notes that the course in which these cases are used is given in the second year of the graduate program at Harvard after the students have had experience with cases and work in such functional fields as marketing, finance, accounting, statistics, and human relationships in organizations. He further suggests that the cases should be most appropriate for senior and graduate students. Use of these cases in "packet" form in the School of Business Administration of the University of California supports this view, it having been found that only graduate students possess the breadth of training necessary for handling these cases well. At the same time, however, there is need for rigorous examination of the principles of general management at the undergraduate level. It is, therefore, a cause for some regret that the casebook did not include a few cases illustrating specific managerial principles and incorporate certain leading questions to aid the less sophisticated student so that the senior undergraduate might have the advantages of the case approach to analysis of the theory of management.

Professor Smith has made some concession to pedagogical needs by arranging the cases under four headings: "Top Management: Problems, Policies, Plans, and Personalities"; "Sizing Up a Situation and Planning a Program of Action"; "Organizing Administrative Personnel and Putting Plans into Action"; and "Follow-Up (Control) and Reappraisal." In explaining this arrangement, Professor Smith states that the first heading covers cases which are introductory in nature and which give the student experience with the role of top managers in policy formulation, with the nature of policies, and with the nature of leadership and authority. The second, third, and fourth headings are designed to cover six fundamental concepts and steps in the process of administration. They cover cases having to do with the functions of any general manager and are meant to represent a sequence of steps which the administrator *tends* to follow. In utilizing this organization of the cases, Professor Smith has (although he does not say so) employed the currently accepted approach to the study of management theory. Recent thinking has tended to standardize the analysis of the theory of business management around the functions of the manager which are generally conceived to be planning, organizing, directing, and controlling the activities of subordinates.

Nevertheless, in the excellent introductory pages where Professor Smith explains the purpose and organization of the casebook, one feels that the author does not realize that the functions which the cases are used to illustrate are not alone those of top management. While the most comprehensive and complicated situations are matters for the decision of top management, the functions of *all* levels of management—in their activities as managers—are essentially the same. Had the casebook been developed with this concept of management in mind, certain drawbacks might have been avoided.

In the first place, a casebook intended to illustrate the principles of management could have been introduced with a number of far less comprehensive and less complicated cases which might more easily be absorbed by undergraduates.

For example, a district sales manager or a production foreman engages in all the managerial functions that a large company president must do. Yet the kind of situation with which the former is faced is likely to be far less complicated and cases built around this level of management might be more easily analyzed.

In the second place, such a casebook might well have introduced the student to the more comprehensive situations utilizing cases dealing with specific management functions. Perhaps a few cases in organization or in the direction of subordinates might have preceded the more general cases. For, in this reviewer's opinion, virtually all the cases in the book are comprehensive in that they cover situations dealing with the whole problem and function of management. Indeed, even though Professor Smith's pattern of arranging the book is valid as a scheme for approaching the study of policy formulation, the fact is that the cases themselves do not fall into this pattern. Cases under the section on planning, for example, deal with other phases of management. The result is that the book outline, as used, has a tendency of being somewhat confusing to the student.

As for the cases themselves, no review can do justice to their content. It can be said that they are good cases and that their writers have done a painstaking job in reporting in detail facts regarding finances, personnel, policies, and alternative programs. Too many business (and law) cases omit pertinent facts which actually were available to the person making a decision and which influenced his decision. While not all facts can be given in a case and while there are always gaps in facts in any business situation which must be filled with estimates and informed guesses, the completeness of the reporting apparent in these cases is a tribute to the careful research and analysis of the Harvard case writers.

The fact that some of these cases date back to 1931 may be a cause for concern to those who feel that the reality of business cases depends upon their currency. The author justifies this on grounds that "change" is the principal characteristic of the business environment and that cases drawn from the past two decades cover periods of depression, recovery, war, conversion to peace, and mobilization for defense. This point is unquestionably valid.

Experience with these cases prior to the publication of this book as well as knowledge of their use in the Advanced Management Program for business executives prove to the reviewer that the cases are stimulating and instructive. They fill a need which has long been felt in order to give content to the examination of the theory of management. While their best usefulness may be limited to advanced students, their availability should have an impelling force toward the study of basic principles of management, in addition to the usual examination of specialized business functions and techniques, in our colleges and universities.

University of California at Los Angeles HAROLD D. KOONTZ

The Danish System of Labor Relations: A Study in Industrial Peace. By Walter Galenson. Cambridge: Harvard University Press, 1952. Pp. xii, 321. $4.50.

In this second book on Scandanavian labor relations, Professor Galenson has described in his usual able way the history and present situation of collective bargaining in Denmark. Although this is not a study of comparative industrial relations, the author has drawn from his studies in Norway and Sweden to illus-

trate and clarify the relations between labor, management, and the state in Denmark.

Only in its historical setting can the practice of collective bargaining in Denmark be understood. The comparatively late decay of the guild system has left what the author calls a "corporate spirit" stronger in that country than in most other modern states. This feeling makes possible a strong national employers' association and a strong national labor union, each, of course, with subdivisions among industries and crafts. Part I of the book deals with the development and organization of the Danish Federation of Labor and the Danish Employers' Association.

Part II describes how collective bargaining now works and includes an economic analysis of the results of such bargaining on wages and other economic aspects of labor relations including wage differentials, occupational mobility, and welfare services such as unemployment insurance, pensions, and vacations. The analysis is excellent with full use being made of available statistics and comparative studies.

The basis for Danish collective bargaining is the so-called September agreement between employers and unions dated 1899. Professor Galenson gives a thorough analysis of this constitution for labor relations and throughout the book shows the importance of the principles contained in that document for maintaining an enviable record of industrial peace.

In Part IV the author describes how disputes are settled under the contracts and tells about the law of labor relations. Professor Galenson's concept of the future of the labor relations system in Denmark is presented in Part IV.

It is a comprehensive book which should provide an excellent source for students of labor relations who are struggling to find methods of industrial peace under democracy. Naturally, as the author points out, the Danish system cannot be transplanted intact to the United States; yet we cannot leave unnoticed some of the lessons the Danes have learned.

The role of government, for example, is particularly interesting. During contract negotiation a government mediator may be called upon to work with the parties. If he thinks it helpful, he will present the parties with his ideas about the disputed clauses. These may be submitted to the membership of the two bargaining organizations for their approval or disapproval. If either side turns down the proposal, the government may or may not step in to force agreement by arbitration. The very uncertainty of what may happen is a force toward agreement. The lack of such uncertainty has often been criticized in this country where some unions seem never to accept any decision until the dispute gets to the White House or at least to the Wage Stabilization Board.

Another discussion of peculiar interest is concerned with the rigidity in the economy resulting from the high degree of organization among employers and employees. Although competition still exists, it is considerably weakened by this corporate spirit.

Also of considerable value to American students is the description of the functioning of the labor courts which enforce labor contracts even by means of heavy

fines on labor and management. Not every case goes to the labor courts, but arbitration is used for contract interpretation and day-by-day disputes under the agreement.

"It should be abundantly clear by now," concludes the author, "that the peaceful labor relations of Denmark have been rooted in the economic and political history of the country. . . . Yet, there is much to be learned from the Danish experience." In fact, the lessons are so valuable that we may well conclude with Professor Slichter, who in his foreword to the book says, "No student of industrial relations and, indeed, no student of modern economic history can afford not to study thoroughly Professor Galenson's incisive and richly documented books."

Duke University FRANK T. DE VYVER

Readings in Personnel Administration. Edited by Paul Pigors and Charles A. Meyers. New York: McGraw-Hill Book Co., 1952. Pp. xii, 483. Boards, $4.50; Paper, $3.00.

Here is a book of thoughtfully selected readings in personnel administration which surely fills a long-felt need for a useful supplement to the various textbooks in the field. Although "keyed" in an organizational sense for use with the editors' own textbook, *Personnel Administration*, this collection should be at least equally effective in rounding out the necessarily limited approach and point of view of other texts written by one or several authors.

The forty-six selections included in this volume are organized into six parts. These are: The Nature and Scope of Personnel Administration; Analyzing and Handling Personnel Problems; The Foreman: His Place and His Problems; Building and Maintaining Work Teams; Wages and Work Assignments; Employee Services and Programs. Each section is preceded by a brief introduction. Twenty-four of the readings have been contributed by authors whose principal connection lies in the broad educational field. Teachers, researchers and administrators in colleges, universities, trade associations and research organizations comprise this group. Most of the remaining selections come from representatives of business concerns.

Unfortunately, this desirable degree of balance which characterizes the whole volume does not carry over to its separate parts. For example, while most of the pieces in the last section, which deals with employee services and programs, come from business sources, only one of the seven selections in the section entitled The Foreman: His Place and His Problems is written by an on-the-line business executive. None of the authors whose views are included in this latter division are foremen, although an excellent case study does present a cross section of management thinking in one firm.

This reviewer takes only partial exception to the contention that this collection of readings emphasizes "the philosophy of personnel administration, its basic problems and limitations, as well as criticisms and doubts raised by union leaders." While it is true that readings which deal solely with techniques have been avoided, it is also apparent that only two articles express the views of active representatives of labor unions. It requires no bias or even sympathy toward the

power politics of present-day unionism to harbor a wish that more of the thinking of young, forceful and influential labor leaders be made available to students, teachers and administrators in the personnel field.

The first selection in this volume is a comprehensive statement concerning the function and scope of personnel administration prepared at a special conference of some twenty personnel executives. This group described the objectives of personnel administration in the following terms:

> The achievement of the purpose of the enterprise involves the coordination of a number of basic functions such as sales, production, procurement, finance, etc. All these functions are carried out by people. There is a function which is an integral part of all other functions, therefore, which is known as "Personnel Administration."
>
> The objectives of Personnel Administration are:
> 1. Effective utilization of human resources.
> 2. Desirable working relationships among all members of the organization.
> 3. Maximum individual development.

Around this skeletal framework, and with a clear recognition and understanding of its implications, the editors of this volume have, on the whole, assembled a solid body of stimulating analysis and information. For this reason, it is not difficult to agree with the feeling expressed in the Preface that this book will be sincerely welcomed by "students, newcomers, and old-timers in personnel work."

University of North Carolina ARTHUR M. WHITEHILL, JR.

The Fundamentals of Top Management. By Ralph C. Davis. New York: Harper and Bros., 1951. Pp. xx, 825. $6.00.

This book is "A Landmark in Management Progress." Ralph Davis' many years of experience and learning are reflected in this very scholarly and extremely practical volume. It is admirably suited for the use of anyone desiring a complete and thorough knowledge of top management, whether it be a college man studying organization or the businessman actually facing problems on which he needs help and advice.

One of the outstanding features of the book is the plan or scheme around which it is developed. In the first chapter Professor Davis charts the "Basic Management Factors and Problems," indicating the general framework, and the relationships, within which the executive operates. After setting the general scene, he traces the work of the executive in his major functions of planning, organizing, and controlling—delving deeply in an orderly, pre-planned, complete manner into the relevant ramifications of each. Included are chapters on standards and standardization; business objectives and ethical standards; business policy; functionalization; responsibility; authority, decentralization, and accountability; line organization; staff organization; attributes of good organization; morale and the integration of interests; operations and the basis of control; preliminary control of operations; and concurrent control of operations. In his final chapter he summarizes the entire work which results in the very desirable effect of an integrated whole.

If one were attempting to select the most outstanding sections of the book,

certainly the three chapters on staff organization, the two chapters on morale, and the chapter on business objectives and ethical standards would rank near the top.

It would be a sad situation, indeed, if no one took exception to anything in the book. There are bound to be differences of opinion in several instances. Some may argue that the full scope of executive activity cannot be properly covered under the three functions of planning, organizing, and controlling (Davis draws attention to this by comparing his analysis of the organic management functions with those of other writers including Henri Fayol); others may not entirely agree with certain of his definitions; there will be some who disagree with the placing of emphasis; and certainly Davis expresses many *personal* opinions (to which he is entitled) which will differ to some extent from the personal opinions of some readers. Such disagreements as these which have just been cited are minor; in this reviewer's opinion, they strengthen, rather than weaken, the book.

Professor Davis does not tell the busy, busy executive how to solve a given problem in "ten easy lessons." It is not a book for the individual seeking the easy, quick solution. Each of the chapters is lengthy, and each of them contains full coverage of the topic at hand. The full cooperation of the reader is required; the reader must *think* if he expects to obtain fullest benefit from his reading. In a very real sense this book is a philosophical one. Davis *does* deal with fundamentals but at a very high level. It is an advanced treatment, not one for a beginning course.

Every student of organization will benefit immensely from a careful, thoughtful study of this book. It is one of the best.

University of Texas JOSEPH K. BAILEY

The Spokane Wholesale Market. By Rayburn D. Tousley and Robert F. Lanzillotti. Pullman, Wash.: State College of Washington Press, 1951. Pp. ix, 201. $3.50.

The findings and conclusions of a two-year survey of the Spokane wholesale market and its trade structure are presented in this book. Primary emphasis is placed on the merchant wholesalers in that city, detailed information is given on the operations of these middlemen in 19 product lines, and some statistical data are presented on nine lesser important product groups. The trading area for each of the major lines has been delineated, the changes that took place between 1939 and 1948 in number of establishments, lines handled, and sales volume are discussed, and competition and price policies are considered in some detail. Comparisons are made with the wholesale market and trade practices in Seattle, the state of Washington, and in the nation. All quantitative data used in the study were obtained from the Bureau of the Census, and qualitative data were developed through personal interviews with trade officials.

A study of this type and scope can be expected to be of greatest interest in that geographical area with which the problem is concerned. All marketing students will be interested in the general findings, however, as well as in the analysis methods and the pattern of presentation, even though these have some serious shortcomings. The failure or inability to develop corroborative statistical data,

the tendency or the necessity to draw conclusions on what appear to be the opinions or hopes of the trade rather than on the basis of comprehensive economic analysis, and the adoption of a presentation pattern which makes necessary much duplication of material constitute the major criticisms. In addition, however, difficulty of expression occurs at times, and some statements of procedures fall short of desired professional standards. For example, the statement, "All in all, over one hundred interviews were made," without an explanation of the exact number and distribution of these interviews, does not represent the degree of preciseness expected in a scholarly research study.

Despite these limitations, however, the book has certain values. It provides detailed information on the operations of an important group of middlemen in a specific trading area, together with some explanation of the reasons for the particular policies and practices adopted. Moreover, it makes clear to the marketing student the fallacy of assuming that all wholesale markets are alike. Students of economics and transportation will also be interested in the freight absorption practices and the variations in services that are described.

University of North Carolina C. H. McGregor

Operating Results of Department and Specialty Store Branches: A Survey as of 1950. By Milton P. Brown. Boston: Harvard University Graduate School of Business Administration, 1952. Pp. 170. Paper, $2.50.

This is the first comprehensive analysis to be published on what is considered to be one of the most important retail developments in recent years—the rapid expansion of department store and specialty store branches. The report is similar in scope and form of presentation to the reports published annually by the Harvard Business School on operating results of department and specialty stores, and like these reports, it provides objective analysis of those factual data which are so useful to retail executives and marketing students.

The materials of the report are divided into four parts. The first contains a detailed analysis and comparison of the 1950 operating results of 56 department store branches and 48 specialty store branches, as well as comparison of the operations of these units with their parent firms and with independent stores of like size. Trends in the three-year period, 1948–1950, are analyzed in the second part, and analysis is made of the effect of sales volume on branch store operating results in the third part. The significance of the operating data reported is discussed and general conclusions are drawn in the final part of the report.

The author modestly states that the study is a "pioneering and thus inherently incomplete effort," and he points out that the conclusions are necessarily tentative in character. Despite these stated limitations, the careful analysis of the large volume and wide variety of statistical data and the presentation of these data in a form which facilitates their use for planning and control make the report a most worthy contribution to retail literature. The sweeping generalizations and the definitive answers which too frequently characterize "first studies" have been avoided, yet the findings and conclusions are sufficient to call attention to

the immediate problems as well as to the probable future problems entailed in branch store operation.

University of North Carolina C. H. McGregor

Chain Stores in America, 1859–1950. By Godfrey M. Lebhar. New York: Chain Store Publishing Company, 1952. Pp. xi, 362. $5.95.

Few men have been so closely associated with the chain store method of distribution over the past quarter of a century as has the author of this book, and perhaps no one has written more extensively on the problems of chain stores in that period. Consequently, *Chain Stores in America* is written competently and in an interesting style, and it contains a mass of historical, economic, legal, and statistical information which has heretofore been available only in piecemeal form and in widely scattered sources.

The materials are presented in three divisions. In the first, the development of the chains is traced; in the second, the opposition to the chains is treated in detail; and in the third, the importance of chains to the community and to farmers, as well as their importance as employers, is considered. The final chapter contains a recapitulation of the development, the success in meeting opposition, and an opinion concerning future expansion. With respect to the latter, the author concludes that gradual and slight growth will take place in the number of chain units as well as in the ratio of business, but that this growth will result from the development of smaller chains and the entrance of newcomers rather than from any large expansion of the present large chain organizations.

The presentation is distinctly favorable to the chain system of distribution. The author recognizes this element of bias, however, for he states in the Preface, "If in the effort to record the history of chain stores in America, the author reveals a tendency to stress the virtues and to minimize their shortcomings, no apology is offered. Convinced as he is of the merits of the chainstore system, social as well as economic, the author sees no reason to conceal his convictions on that score." In spite of this tendency toward a biased account, the book makes a worthy contribution to marketing literature, it is one that should be made available to students for collateral reading, and it is one that marketing instructors will desire to have in their personal libraries.

University of North Carolina C. H. McGregor

Marketing in the American Economy. By Roland S. Vaile and others. New York: Ronald Press Co., 1952. Pp. xviii, 737. $6.00.

This textbook, which brings together the ideas of three leaders in the field of marketing, has as its primary point of view "the transcendent importance of this social institution as a vast and complex function of our free-enterprise economy." The authors "believe that students must be given a clear understanding of why marketing exists as well as how it is carried out in the American economy's dynamic mixture of public and private enterprise as well as how well it dis-

charges both its social and economic tasks." That the book does what it intends to do is the belief of this reviewer.

Compared with other textbooks in the field, this book does not follow what has come to be considered the conventional series of topics, but the new arrangement may be more stimulating and understandable to the student. Divided into six parts, the book's main subjects are marketing in our economy; specialization and integration in marketing; buying and selling; pricing; marketing within and between regions; and marketing efficiency and control. It is the first and fifth sections which provide the greatest contrast with the other texts.

The first section starts with an interesting example of the necessity of marketing in our complex economic system and then discusses the "basic tasks" of marketing with less stress on the "functions" than is usually presented. The third chapter on the economic environment for marketing features the national product and disposable income concepts as well as the problems centering around the concentration of industry and small-scale business. The last chapter of this section examines the structure of demand.

The second part presents some of the more conventional ideas but in somewhat different order. A clear picture is given of the twin flows of physical goods and ownership. The bulk of this part deals with the marketing institutions that provide for these two movements. The use of certain terms such as "nonprofit agencies of marketing" and "nonowning agencies of marketing" for co-operative efforts and functional middlemen may aid the student in getting a better idea of these institutions.

The third part emphasizes the major tasks of the marketeer which often are slurred over in both texts and classroom discussions. The sub-functions under both buying and selling are discussed fully and form the basis for the chapters on the marketing of primary products (agricultural and other products of nature), manufactured products, and products sold by distributors. The section closes with a chapter on standardization, differentiation, and nonprice competition.

The fourth section on pricing follows a somewhat usual pattern, with the last chapter giving some detailed price structures which should enable the student to see the practical aspects of the previous material.

Relatively little, if any, attention and surely no emphasis is placed upon interregional marketing in other textbooks for the general marketing course. The book reviewed here, as might be expected from the authors being situated in three diverse areas—the East, the Midwest, and the Far West—uses this approach before presenting the more usual material on wholesale and retail area structures. The first chapter of the fifth section on interregional marketing is probably the most outstanding point of difference from other works.

The last section on marketing efficiency and control is closer to the standard presentations dealing with the need for control, market research and market information, budgetary and accounting controls, marketing costs, quantitative measures of efficiency, measures of social efficiency, and government regulation of marketing.

Besides the usual subject index and table of contents, the book includes an index of names which may be helpful to the advanced student or teacher of marketing. References are provided through footnotes only and no questions or summaries appear at the end of chapters or parts.

Viewing the book as a text for students in an advanced course in marketing or for graduate students who need a well-written, pleasantly-readable "refresher," this book is to be highly recommended. It will also serve to stimulate the thinking of teachers in basic marketing courses. Viewing the book as a text for the one-semester or one-quarter marketing course, often taken by sophomores or beginning juniors, it seems to be too long and repetitious, perhaps, in parts. This fault, however, is also shared by most of the marketing texts today and raises the query as to whether or not the study of such a dynamic subject as marketing can be encompassed in a single unit course. The freshness and vigor of the book here reviewed would be lost, it is thought, if it were to be boiled down to shorter length and the overlapping implied above actually serves to make more clear the presentation.

This new approach and transposition of the standard topics in marketing has provided both the student and the teacher of marketing with a stimulating, pleasing text.

University of Alabama DONALD F. MULVIHILL

STATE REPORTS

ALABAMA

In the second quarter of 1952, Alabama business displayed some divergent tendencies. A slightly favorable trend in activity was offset by the uncertainty attendant on the steel situation and the subsequent strike. This mirrored a similar situation in the nation as a whole.

As a result of the steel strike, steel ingot production in April and May was down about 14 per cent from the first quarter level and 13 per cent from the level recorded a year ago. A similar dip appeared in figures for the United States. By the same token, industrial production in Alabama during April was down about 8.5 per cent from the third quarter level and 5 per cent from the level of a year ago. This was a sharper decline than the recession of 2.3 per cent from the third quarter mark and 3 per cent from the corresponding figure of 1951, recorded in the nation.

In non-agricultural employment, Alabama witnessed a rise of $\frac{8}{10}$ of 1 per cent in April and May over the third quarter figure, and a rise of 3.7 per cent over the corresponding figure of 1951. Since non-agricultural employment in the nation increased only $\frac{1}{2}$ of 1 per cent in the year period, it is evident that Alabama has outrun the average state in this category. Alabama contract construction awards were up about 5.5 per cent in April and May over the first quarter, but down 30 per cent from the level displayed a year ago. In contrast, contract construction in 37 states exhibited an increase of nearly 50 per cent in the second quarter over the first quarter, while displaying a decline of only 13 per cent from the level existing in the second quarter a year ago. In both areas, the decline relative to a year ago reflects the spurt which occurred in the former period induced by the imminence of governmental restrictions on construction.

In Alabama, the consumer price index for Birmingham was unchanged relative to the first quarter, while exhibiting an increase of 2.2 per cent over the index a year ago. Prices received by Alabama farmers were down about 2 per cent in January and February from the first quarter level and 10 per cent from the level a year ago. National tendencies were similar for both series. Sales tax receipts for Alabama in April and May were up 7.3 per cent over the first quarter figure, and retail sales in April were up 1.4 per cent over the first quarter level and 15 per cent over the level of a year ago.

In summary, a slight upward tendency in Alabama business was offset by the steel strike. At present, the overall picture in Alabama, as in the nation, is that of comparative stability.

University of Alabama JOHN S. HENDERSON

FLORIDA

The phosphate industry of Florida is attracting increased national attention because of its potential as a source of uranium. Priorities, certificates of necessity,

and accelerated amortization privileges are being used to encourage the construction of plant capacity for phosphate chemicals and fertilizers where the process promises to yield uranium as a by-product. An outstanding project of this sort is a large new plant now being built by the International Minerals and Chemical Corporation near Bartow.

This development promises to strengthen the already important phosphate industry of Florida, which employs about 4400 workers and produces about three-fourths of the nation's output. About 90 per cent of the Florida production comes from Polk County. Most of the phosphate mined goes into commercial plant food.

The frozen orange concentrate industry continues to expand despite the problem of excessive inventories which recently beset producers. It is reported that inventories have been worked down to more normal levels by means of price reductions. Demand for the product has proved to be quite elastic over the price ranges which have been explored.

The problem of excessive inventories may turn out to be a frequently recurring one in this industry. An expansion of about 20 per cent in the orange crop has been predicted for the next two years. And the frozen orange concentrate industry has become a principal means used by growers to dispose, through their cooperative concentrate organizations, of oranges which cannot be sold fresh because of grower cooperation in maintaining fruit prices. There are now over 75 brand names under which frozen orange juice concentrate is sold, including those of California producers.

Expansion of the frozen juice concentrate industry is a major factor in the construction of new can manufacturing facilities in Florida. A new American Can Company plant at Plymouth is just getting underway. Work has recently started on a new Continental Can Company plant at Auburndale, and the Crown Can Company at Orlando has recently increased its capacity.

Florida State University MARSHALL R. COLBERG

GEORGIA

Georgia closed the fiscal year which ended June 30, 1952 with a record surplus of \$30,214,458, according to a report on the financial condition of the state recently issued by state auditor B. E. Thrasher, Jr. Total treasury receipts were \$228,876,799, or \$66.45 per capita. This was an all-time high and nearly 50 per cent more than last year's record of \$153,338,788. Expenditures also set a new record. They were \$217,110,506, or \$66.03 per capita, as compared to \$139,195,709 during fiscal 1951. This resulted in an operating surplus for the year of \$11,766,292, at least \$4,000,000 greater than anticipated, which, when added to the surplus of \$18,448,292 as of June 30, 1951, enabled the state to start the new fiscal year in a very favorable position.

Much credit for the continued budget surplus in the face of a 56 per cent increase in expenditures must go to the 3 per cent general sales and use tax which went into effect April 1, 1951. Revenue from this tax amounted to \$93,654,353,

or 40.9 per cent of total receipts for the year. This is an average of $27.19 for each citizen in the state, or $108.76 for a family of four. The productiveness of the Georgia sales tax arises largely from its all-inclusiveness and the relatively few exemptions granted under it. A recent analysis by the sales tax unit of the state revenue department disclosed that food consumers are paying almost one-fourth of the tax, while collections on general merchandise sales produced 21 per cent and the automotive group 14 per cent of the total.

Treasury receipts other than those arising from the sales tax declined during the fiscal year just past, principally because of the abolition of certain nuisance taxes and tax reductions approved by the General Assembly at the time the sales tax was passed. The motor fuel tax was the second largest revenue producer, having been ousted from first place by the general sales tax. Collections from this source were $51,638,840, or 22.6 per cent of the total, as compared to $53,-902,742 in fiscal 1951. State income tax collections, continuing the climb begun last year, reached a new high of $39,380,264, and provided 17.2 per cent of total receipts. Other important revenue sources, particularly taxes on alcoholic beverages and tobacco products, registered substantial declines. Beer, wine and liquor taxes amounted to $10,541,357, down $6,852,017 from last year, while cigar and cigarette taxes totalled $8,890,257, down $4,176,886 from 1951.

Expenditures for education, including the University System, amounted to $103,411,393, an increase of almost 72 per cent over 1951. This was 47.6 per cent of total budget allotments, and represented an average expenditure of $30.02 per citizen of the state, a substantial increase over the $17.53 per capita expenditure on education for the previous year. Roads and bridges also shared heavily in the increased revenue, 26 per cent of total expenditures, or $56,486,923 being allocated for these purposes. Health and welfare payments amounted to 15.4 per cent of the total, while only 11 per cent went for all of the other activities of the state.

Further increases in expenditures may be anticipated. The budget for the first quarter of the current fiscal year is $1,640,519 higher than the budget for the same quarter last year. Most of this increase will go to highways which will get $1,625,000 more than last year. In spite of the increased spending for roads and bridges during recent years, the highway system of the state remains in dire need of further repairs and improvements.

Emory University ALBERT GRIFFIN

KENTUCKY

Most of the new industry which has located or is locating in Kentucky in recent months is in the western part of the state. The eastern section remains substantially untouched by this economic resurgence, yet the section has almost dire need of new economic opportunity to employ its labor and utilize its coal. Competing fuels have so reduced the demand for coal that producing areas distant from markets are especially hard hit. This is the case with much of eastern Kentucky's coal area. Many small mines have closed and the larger

ones often operate only two or three days a week. The May report of the Department of Economic Security listed 48,100 employed as coal miners, the lowest since July, 1935, and the trend is downward. As this is written the steel strike has worsened the situation. It is but natural that the youth of the section should migrate, seeking better economic opportunities.

The report also mentioned slackening of consumer demand as the reason for loss of 3700 jobs in the lumber and furniture industries. No reason was given for the loss of 1800 jobs in the metals and machinery industry. The 1900 laid off in food and kindred products was offset by 1900 more jobs in cigarette making.

A recent decision of the Court of Appeals upset a fourteen-year-old practice of the Division of Unemployment Insurance, now in the Department of Economic Security. It held that employers no longer must pay unemployment-compensation taxes to the state unless they have four or more employees on their payrolls at the same time. This eliminates an anomalous situation which compelled, for example, an employer of three to pay retroactive taxes if he found it necessary to replace one of his employees, whereas another employer of three with no personnel turnover was exempt.

The state is planning a new assault on its mental-hospital problem. Overcrowding, lack of trained personnel, and the serious problem of senility are the problems crying for solution at the four mental hospitals. A survey of the 7200 persons in the institutions indicated 400 to 600 elderly patients who need not be in mental institutions, but could be cared for by relatives or homes for the aged. The state may be compelled to build such homes for the unwanted harmless aged. The 1952 legislature took the mental hospitals out of the Welfare Department and set them up as an independent agency. The governor was authorized to appoint a commissioner of mental health.

Gerrymandering is not a lost art. The redistricting act of the last legislature is proof of that fact. Forced to reduce Congressional districts from nine to eight the democratic majority in the legislature did a wondrous job of carving the state so as to bottle up the Republicans into two and possibly only one district. All the districts except the third (which is made of Jefferson County only, containing the city of Louisville) contain strange bedfellows, but the first, second and fifth would delight the heart of any teacher wanting to illustrate the famous principle.

As this is written (July), drought conditions in much of the state have reached serious proportions.

University of Kentucky RODMAN SULLIVAN

MISSISSIPPI

With the expansion into a number of other states of the Mississippi Balance-Agriculture-With-Industry plan, recent developments in banking circles affecting the financing of such programs may prove of interest to our readers. The "BAWI" operates under the general supervision of a state agency—The Mississippi Agricultural and Industrial Board. Under the program, counties and

cities may contract with specific companies desiring to locate in the community and, upon a favorable vote of the people, issue general obligation bonds for the purpose of building or acquiring buildings specifically designed for manufacturing. These are then leased to the company, the industry in effect meeting the interest costs and paying off the bonds on what is actually a rental basis. Tax concessions are also made to new enterprises.

At their Hollywood, Florida, convention late last year, the Investment Bankers Association of American adopted a resolution condemning the growing field of municipal-industrial financing and urged its members to aid in putting an end to the practice. Such issues were said to be potentially dangerous to the credit of the issuing communities, and in fact to the whole field of state and municipal financing. This action has been interpreted by officials in Mississippi as a direct attack by eastern financiers on the growing industrialization of the state, and as testimony of the effectiveness of the "BAWI" and similar programs in bringing about a relocation of industry. While the credit given to the "BAWI" effort is probably exaggerated, it remains true that some 70 bond issues totaling approximately $20 million have been issued under the plan.

The outstanding immediate effect of this "blackballing" of such issues was the failure of bond buyers to bid on a $6.5 million bond issue by the city of Meridian. These bonds were for the securing of a site and construction of a building to house a textile plant for Textron. The inability to sell these bonds led to termination of the contract with Textron.

Governor White has indicated that a vigorous fight will be made to carry the program forward and that, if necessary, the state itself will buy such bonds from the municipalities. What the long run effects of this "squeeze" will be is problematical. As late as June the city of Brookhaven sold a $600 thousand bond issue to a syndicate headed by a Jackson company. Other bids were received.

University of Mississippi DAVID MCKINNEY

NORTH CAROLINA

Because of the high value of North Carolina's tobacco crop, the state, which has more people living on farms than any other state except Texas, generally ranks next to Texas and California in total cash receipts from all farm crops. Its cash receipts from livestock, however, are exceeded by those of more than half of the states. This lack of balance, and especially the state's deficiency in the production of milk, have for years been a matter of concern to the state's leaders who have regarded the development of the dairy industry as essential both to the improvement of farm income and to the better nourishment of the people.

Results that are significant, although not startling, have been achieved. In the 20 years from 1930 to 1950, while the population of the state was increasing by 28 per cent, the number of cows being milked increased by 40 per cent. Of greater significance is the fact that dairy herds have been improved in quality, with the result that the total production of milk increased during this period

by 54 per cent. Thus milk production grew about twice as fast as the population. Even so, in 1950 the per capita production of milk was only 413 pounds as compared to the average national consumption of 777 pounds. Fluid milk is imported from other states in modest amounts, varying generally between 2 and 5 per cent of the state's production.

There is no section of the state that enjoys an adequate consumption of milk by present-day nutritional standards. Further increase of production is stimulated, however, by numerous local creameries which afford a ready market for the farmer's output, and which process the milk for sale in fluid form, as butter or as ice cream. The production of ice cream within the state more than doubled between 1930 and 1940, and more than tripled between 1940 and 1950. In 1950 it amounted to more than 14 million gallons. Cheese production is small and has showed no increase over the past fifteen years. Milk evaporation plants increased their use of milk from 6½ million pounds in 1940 to 33 million pounds, or 2 per cent of the state's production, in 1950.

The existence of adequate marketing facilities and the improvement of dairy herds that have already taken place give promise of more rapid growth of the industry in the future. One of the most serious handicaps is the present wide seasonal variation in the state's production of milk, a variation that seems to have become more pronounced instead of less so during the past ten years. Winter production runs less than two thirds of summer production. If the state's experts in the care and feeding of dairy cattle can reduce this variation, the industry will be greatly encouraged by the increase in its profitableness.

Davidson College C. K. Brown

TENNESSEE

A popular misconception of Tennessee by outsiders, and even by many within the state, is that the economy of the state is predominately agricultural. This erroneous view is not substantiated by the facts. In 1950 manufactured products in Tennessee were valued at approximately $1,200,000,000, while the total cash receipts from farm marketings were estimated at $424,000,000. State farm properties, including buildings and land, are now valued at around $1,400,000,000 while property of manufacturers has a value of about $1,800,000,000.

This increase in industry has affected population trends. In 1950 less than one-third of Tennessee's 3,291,718 people lived on farms, while two-thirds lived in cities or in nonfarm suburban areas. The average size of Tennessee farms has increased from 75.9 to 80 acres during the 1945–50 period while farm population showed a steady decline. The 1950 census showed 3,000 fewer farms in the state in 1945 and 5,000 fewer farm operators who resided on the property.

These trends have caused many rural leaders to become concerned over the threat of absentee ownership and large corporate farms. They feel that increased mechanization on larger units of land improve efficiency, but, at the same time, it pushes aside many small farmers who find it difficult to compete with modern methods of mass production.

Together agriculture and industry produce a diversified output. Of the total

produced, it is estimated that Tennessee industry and agriculture export products worth more than $180,000,000 annually. The annual exports of the 12 leading Tennessee industries amount to $70,000,000. These industries include knitting mills, organic chemicals, apparel and related products, primary metal products, cotton and rayon fabrics, footgear, furniture and fixtures, heating and plumbing equipment, rubber products, finished wood products, and machinery and structural metal products. Tennessee is also a large producer of major agricultural export commodities. These commodities include corn, hogs, eggs, tobacco, dairy products, cotton, soybeans, wheat, oats, apples, and vegetables. The steady increase of beef cattle on farms in the state is one of the most significant developments in agriculture. Tennessee is still far from being self-sufficing in the production of this product however.

Despite the healthy growth in agricultural and industrial production, there is at least one dark cloud on the horizon. Although Tennessee achieved an average gain of 34 per cent in new businesses between 1944 and 1952, the business mortality rate in Tennessee increased sharply during 1950, while both the Southeast and the nation were having fewer discontinuances. The 1950 rate of business deaths in the state equalled the rate of business births for the first time since 1940. This trend is being carefully watched and the entire economy of the state is being reappraised to determine what factors are contributing to the trend. It is hoped that by honestly facing and soundly resolving the numerous problems at both state and local levels, this trend will be halted and Tennessee's economic future will be assured by the maintenance of an economic climate congenial to the creation and development of industry.

George Peabody College for Teachers JAMES E. WARD

VIRGINIA

The business upswing in Virginia in the past six months served to indicate that the bottom of the current recession had been reached. The most significant development has been the substantial recovery in synthetics with total rayon and acetate shipments up considerable, and while employment in the yarn industries is not yet back to normal levels, a number of workers previously laid off have been recalled. This improvement has been due largely to revival in hosiery manufacture. There is no mystery about the supporting influences in Virginia's business trend in the past six months. They are construction expenditures, department store sales, and retail furniture sales. Construction continued strong with building permits totaling $39 million for the first five months of 1952, in the eight Virginia reporting centers, as compared with $35 million for the same period in 1951. Much of this construction is due to military establishments in which there is a heavy backlog. Installment sales or reporting department stores showed a sharp rise after seasonal correction, following the demise of Regulation W. Total department store sales in Virginia are 11 per cent ahead of 1951, with soft-goods lines and household appliances showing considerable strength. Retail furniture stores had an increase in sales of about 7 per cent. Adjusted sales of wholesalers showed mixed trends but all lines were higher than

a year ago with the exception of drygoods, groceries, and paper. There were some gains in automotive supplies, electrical goods, and industrial supplies. Savings have continued to increase, and demand deposits of the banks were close to the peak. In short, the general trend in economic activity in Virginia during the first six months of 1952 has been upward.

However, the steel strike is having an impact upon Virginia industry. The first affects are a reduction in the output of bituminous coal, and lay-offs on the four East-West railroads. A continuation of the strike will have serious effects upon both defense and non-defense construction, and further paralysis of the coal and transportation industries.

* * *

Virginia agriculture in the past quarter century has shown two very significant trends. First, there has been the trend to grass-land farming. The major influences in this have been the high cost of labor, and the high prices of live-stock products. The acreage planted in corn and wheat has sharply declined, especially in the past five years. Today 59 per cent of the Virginia farmer's income is from live-stock and live-stock products. One of the most recent businesses has been the turkey-broiler-fryer business which has changed the turkey business from a 4-month to a 12-month business. This "teen-age" turkey is revolutionizing the whole turkey industry. The second trend has been mechanized farming. This is now approaching its saturation point since out of approximately 150,000 farms in Virginia only 50,000 are adaptable to use of machines. Of these, 36,000 are already mechanized. However, it is becoming the practice of some large farmers to rent adjoining small farms with the result that some of the farms with less than 100 acres are becoming mechanized.

As to the income picture, the Virginia farmer is being caught in the squeeze of rising costs and falling prices. Farm prices have dropped an average of 3 per cent in 1952 as compared with 1951, and farm costs have risen an average of 2 per cent. The heaviest rises have been in farm machinery, seeds, and wages. The result is a decrease in gross income from $640 million in 1951 to $600 million in 1952, and in cash income from $520 million in 1951 to $500 million in 1952. Thus, the over-all condition of the Virginia farmer is not as favorable as it has been in the past. However, this situation may be somewhat improved since large crops are needed this year, especially of feed grains. The 1952 crop season is progressing nicely in the state, and since shortages are predicted for other parts of the country, prices may rise to offset some of the disadvantages.

University of Richmond HERMAN P. THOMAS

PERSONNEL NOTES

John William Anderson has been appointed assistant professor of accounting at the College of Business Administration, University of Georgia.

Edward C. Atwood, Jr., of Denison University, has been appointed assistant professor of economics at Washington and Lee University.

Walter M. Austin, head of the Economics Department at Florida A & M College, was granted a scholarship by the Joint Council on Economic Education to attend the Riverdale Economic Education Workshop of New York University.

Howard L. Balsley, of Russell Sage College, has accepted a position as associate professor of commerce at Washington and Lee University.

E. G. Bayfield, formerly director of Products Control and Research, Standard Milling Company of Chicago, has been appointed associate professor in the Department of Baking Science and Management, School of Business, Florida State University.

Jack N. Behrman, of Princeton University, has been appointed associate professor of economics and political science at Washington and Lee University.

Finley Belcher, assistant professor of accounting in the School of Business, Florida State University, has returned from a year's leave of absence during which he worked on the doctorate degree at Indiana University.

Jane Kirk Bell, recently appointed instructor in the Department of Management, School of Business, was on leave of absence from Florida State University for the summer to study for the doctorate at the University of Alabama.

George P. Biglow, who formerly taught at John Carroll University, has joined the staff of the University of Florida as instructor in marketing.

Martin L. Black, Jr., professor of accounting at Duke University, spent the summer of 1952 in Washington, D. C., working with the Atomic Energy Commission in a special advisory capacity.

Buford Brandis has resigned as associate professor of business administration at the School of Business Administration, Emory University, to accept a position as economist in the Research Department of the United States Chamber of Commerce.

Francis J. Bridges, of Union University, served as instructor in economics at the School of Business Administration, Emory University, during the summer quarter, 1952.

Robert P. Brooks joined the economics faculty of Stetson University in the fall of 1952.

C. K. Brown, professor of economics and dean of the faculty at Davidson College, taught in the second 1952 summer session at the University of North Carolina.

Harry Gunnison Brown, for many years head of the Department of Economics at the University of Missouri and more recently associated with the New School for Social Research, has accepted a position as visiting professor of economics at the University of Mississippi.

Thomas H. Carroll, dean of the School of Business Administration, University of North Carolina, has been elected an honorary fellow of the North Carolina Association of Certified Public Accountants. He has also been appointed chairman of the Standards Committee of the American Association of Collegiate Schools of Business.

John E. Champion, assistant professor of accounting at the College of Business Administration, University of Georgia, is on leave for the academic year 1952–53 to work on his doctorate at the University of Michigan.

J. Carl Clamp has resigned as assistant professor of economics at Florida State University to accept a position with the Wage Stabilization Board at Kansas City.

George R. Collins has been appointed instructor in marketing at the University of Alabama to teach business writing.

Eleanor Craig has been granted a year's leave of absence from the Woman's College of the University of North Carolina to pursue advanced study at Duke University in 1952–1953.

G. William Crist, Jr., has been promoted to professor of insurance at the University of Florida.

Donald Dewey, assistant professor of economics at Duke University, spent the summer of 1952 in London, England, on a research project.

Frank Dunbaugh, a member of a local advertising firm, has been appointed lecturer in marketing and advertising at the University of Miami.

C. William Emory has been promoted to associate professor of marketing at the University of Florida.

Rashi Fein has been appointed lecturer in economics in the School of Business Administration and research associate in the Division of Health Affairs of the University of North Carolina.

Joe S. Floyd, Jr., has been promoted to associate professor of finance, University of Florida.

Gerald F. Franklin, instructor in economics at the University of Miami, did Ph.D. work at Harvard during the summer. He returned to the University of Miami in the autumn as instructor of economics and administrative assistant in the School of Business Administration.

Lois Frazier has been appointed instructor of economics at the Woman's College of the University of North Carolina.

James Teasley Frye, formerly instructor of accounting, College of Business Administration, University of Georgia, has been appointed assistant professor and comptroller of South Georgia College.

Gilbert L. Gifford is head of the division of transportation at the School of Business Administration, Atlanta Division, University of Georgia.

George A. Gustafson has resigned as assistant professor of accounting at the School of Business Administration, Emory University, to enter public accounting.

Rector R. Hardin has been appointed professor of economics at the College of Business Administration, University of Georgia.

Hugh K. Hawk, formerly assistant professor of economics at Washington and

Lee University, has accepted a position with the Office of Prince Stabilization in Richmond, Virginia.

H. M. Heckman, professor and chairman of the Accounting Department, has been appointed chairman of the graduate program at the Atlanta Division, University of Georgia.

Clarence Heer, Kenan professor of economics, School of Business Administration, University of North Carolina, has resumed his teaching duties following a six months leave of absence to serve with the Department of Defense as member of a team which was undertaking the development of monetary policy arrangements with President Rhee of Korea.

O. E. Heskin has resigned as head of the Department of Economics, University of Florida, and has been granted a leave of absence to accept an assignment with the U. S. State Department in Pakistan.

Forest D. Higgins, assistant professor of accountancy at the University of Mississippi, is on leave of absence to do graduate study at the University of Iowa.

Jack A. Hill has resigned as instructor in the Department of Management, School of Business, Florida State University, to accept a position with Hamilton Management Corporation of Austin, Texas.

Calvin B. Hoover, chairman of the Department of Economics at Duke University, gave a series of lectures on Monday, June 16 and Tuesday, June 17, 1952, for the Life Officers' Investment Seminar in Beloit, Wisconsin, sponsored by the American Life Convention in affiliation with the School of Business of the University of Chicago. The overall title of the three lectures given was *Europe 1952*.

Scott W. Hovey, formerly on the legal staff of Armour and Company in Chicago, has joined the staff of the University of Florida as associate professor of business law.

Hurber C. Hurst, who has been on the staff of the University of Florida for 25 years, has resigned his position as professor of business law to devote full time to private business.

James C. Ingram, who has been in Thailand on a Social Science Research Council fellowship during the past year, has been appointed acting assistant professor of economics in the School of Business Administration, University of North Carolina.

Daniel J. James is now assistant professor of marketing at the School of Business Administration, Atlanta Division, University of Georgia.

George W. Jennings, assistant professor of economics, School of Business Administration of the University of Richmond, is continuing graduate study at Duke University.

Russell Kirkpatrick, assistant professor in restaurant and hotel management, School of Business, Florida State University, has recently returned from active military service as a lieutenant in the U. S. Army.

Frank Joseph Kottke, who was on leave during 1951–52 from his position as associate professor of economics in the School of Business Administration, Uni-

versity of North Carolina, has resigned to continue his work with the Federal Trade Commission.

William E. Lane has been appointed instructor in business statistics at the University of Alabama.

James S. Lanham, who has been on military leave for the past 18 months while on active duty with the U. S. Air Forces, has returned to his position as head of the Accounting Department, University of Florida.

John A. Leavitt, professor of finance at Ohio University, served as visiting professor of finance in the School of Business, Florida State University, for the 1952 summer term.

James Hutton Lemly has been appointed assistant professor of economics at the College of Business Administration, University of Georgia.

Jean P. Lesperance, associate professor of management and director of the Motion and Time Study Laboratory of the University of Miami, has been raised to professor of management.

Daniel C. Lewis, Jr., has resigned his position as assistant professor of commerce at Washington and Lee University and will take graduate work at the Harvard Graduate School of Business.

George J. Malanos has been promoted to associate professor of economics at the University of Miami.

Albert D. Maynard is head of the work in the field of labor at the School of Business Administration, Atlanta Division, University of Georgia.

Joseph G. Mayton, professor of economics at the School of Business Administration, Atlanta Division, University of Georgia, is on leave of absence to do defense work for the federal government.

F. Byers Miller, dean of the School of Business Administration of the University of Richmond, was awarded a Ph.D. degree by the Ohio State University in June.

Jerome W. Milliman, formerly at the University of California at Los Angeles, has been appointed assistant professor of economics at Florida State University.

Frank H. Mulling has been appointed instructor of accounting at the College of Business Administration, University of Georgia.

Glen E. Murphy, assistant professor of business education in the School of Business, Florida State University, returned this fall from Teachers College, Columbia University, having won his doctorate degree in business education.

Dan Mays McGill, Julian Price associate professor of life insurance in the School of Business Administration, University of North Carolina, has resigned to accept an appointment as associate professor of insurance, and director, Pension Research Foundation at the University of Pennsylvania.

Marvin McKneely has been appointed instructor in business administration at the School of Business Administration, Emory University.

James E. Parks, assistant professor of marketing at the University of Mississippi, is the recipient of a General Education Board fellowship for 1952–53 and is on leave of absence to study at the Harvard Graduate School of Business.

B. L. Perry, Jr., assistant professor of economics at Florida A & M College, was granted a leave of absence to attend Cornell University for the 1952 summer session and the 1952–53 academic year.

R. W. Pfouts, formerly lecturer in economics in the School of Businesss Administration of the University of North Carolina, has been promoted to acting associate professor of economics and business administration for the academic year 1952–1953. He was awarded a Ph.D. degree by the University of North Carolina in June.

Harry R. Price, assistant professor of accounting at the University of Miami, has received a leave of absence for a year in order to complete his Ph.D. work at Northwestern University.

Malcolm L. Pye, assistant professor of accounting, School of Business Administration of the University of Richmond, has received his CPA certificate from the State of Illinois.

William B. Rahn has been appointed lecturer in marketing and real estate at the University of Miami.

Wendell P. Raine, visiting professor of business law at the University of Miami and formerly at the Wharton School of the University of Pennsylvania, returned to the University of Miami in the autumn of 1952.

Kenneth E. Raschke, professor of business law at the University of South Dakota, served as visiting professor of business law at the University of Florida during the 1952 summer session.

Royal Ray, head of the new Department of Advertising in the School of Business at Florida State University, was formerly president of the Advertising and Sales Club of Syracuse and chairman of the Department of Advertising at Syracuse University.

William Roberts, associate professor of economics at Mississippi State College for Women, is on leave of absence during 1952–53 to study for his doctorate at the University of Colorado.

Ewing P. Shahan, formerly professor of economics, has become dean of the College of Arts and Sciences, Vanderbilt University.

Joseph J. Spengler, professor of economics at Duke University, conducted a seminar in American Industrial Relations at the University of Kyoto, Japan, for a six weeks period during the summer of 1952.

William Adolph Terrill, assistant professor of accounting in the School of Business Administration of the University of North Carolina, has resumed his post following a leave of absence granted during the spring quarter. He was awarded the Ph.D. degree by the University of Illinois in June.

Sam B. Tidwell, who has been on a two-year leave of absence while doing graduate work in accounting at Ohio State University, has returned to Mississippi Southern College as assistant professor of accounting. He passed his C.P.A. examination last winter.

George P. Torrence, formerly president of the Link Belt Company of Chicago, has been appointed professor of business administration at the School of Business Administration, Emory University.

Robert W. Travis, who formerly taught at Indiana University, has been appointed assistant professor of real estate at the University of Florida.

James C. Vadakin, assistant professor of economics at the University of Miami, completed his Ph.D. work at Cornell University during the summer of 1952. He returned to the University of Miami in the autumn.

Charles O. Vandervort, who after completing his graduate work at Ohio State University taught one semester at Mississippi State College, has accepted a position as assistant professor of marketing at Mississippi Southern College.

Barton A. Westerlund, formerly instructor in marketing and business statistics and administrative assistant in the School of Business Administration, has been appointed assistant professor of marketing, University of Miami.

Henry B. Wilson, formerly at the University of Alabama, has accepted a position as assistant professor of industrial management at the University of Mississippi.

Porter S. Wood has been appointed assistant professor of accounting at the College of Business Administration, University of Georgia.

Leo Wotitzky has been appointed interim instructor in business law for the fall semester at the University of Florida.

Charles A. Wurst, formerly instructor in marketing at the University of Miami, has been appointed lecturer in marketing.

John W. Wyatt was granted a leave of absence from his position as assistant professor of business law, University of Florida, for the summer and fall terms to continue studies at George Washington University.

* * *

The following names have been added to the membership of the Southern Economic Association:

George W. Cubberly, University of Miami, 6042 N. Waterway Drive, Miami, Fla.

John M. Dyer, University of Miami, 2260 S. W. 29th Avenue, Miami 34, Fla.

Frank Meeham, Marketing Department, University of Miami, Miami, Fla.

William B. Rahn, University of Miami, Miami, Fla.

Alton G. Sadler, School of Business Administration, University of North Carolina, Chapel Hill, N. C.

B. Douglas Stone, Jr., Box 8243, University of Tennessee, Knoxville, Tenn.

Clark Warburton, Pine Hill Road, McLean, Va.

Barton A Westerlund, University of Miami, 7240 S. W. 19th Street, Miami, Fla.

Charles W. Wurst, University of Miami, 241 Miracle Building, Coral Gables. 34, Fla.

Tentative Program of the SOUTHERN ECONOMIC ASSOCIATION, *Washington Hotel, Jacksonville, Florida, November 14 and 15, 1952*

FRIDAY, NOVEMBER 14, 1952

10:00 A.M.—Morning Session

Chairman: Walter J. Matherly, University of Florida

Topic: Rediscovering Interest Rates

1. Principal Contributions to Interest Rate Theory since Keynes' *General Theory*: W. A. L. Coulborn, Oglethorpe University
2. Major Movements of Interest Rates in the United States since 1940 and Some of Their Economic Implications: Dewey Daane, Federal Reserve Bank of Richmond

Discussion:

W. T. Whitman, Emory University
John S. Henderson, University of Alabama
W. L. Miller, Alabama Polytechnic Institute
Marshall R. Colberg, Florida State University

2:00 P.M.—Afternoon Session

Chairman: S. M. Derrick, University of South Carolina

Topic: Fiscal Policy, Credit Policy, and the Money Supply

1. The Postwar Management of the Federal Debt and Federal Reserve Credit Policy: C. H. Donovan, University of Florida
2. Alternative Credit and Debt Management Policies for the Future: C. K. Brown, Davidson College

Discussion:

Raymond F. Mikesell, University of Virginia
Charles T. Taylor, Federal Reserve Bank of Atlanta
E. C. Simmons, Duke University
Howard S. Dye, University of Tennessee

6:00 P. M.—Dinner Meeting

Toastmaster: Harlan L. McCracken, Louisiana State University

A dinner for all present and past officers of the Association and all present and past Editors and Reporters of *The Southern Economic Journal* with their ladies, to celebrate the Twenty-First Anniversary of the Association and to honor Charter Members. An informal Program will be arranged.

8:30 P.M.—Evening Session

Chairman:

Presidential Address: George W. Stocking, Vanderbilt University

SATURDAY, NOVEMBER 15, 1952

9:00 A.M.—Annual Business Meeting

10:00 A.M.—Morning Session

1. Round Table on Labor Economics
   Chairman: J. Fred Holly, University of Tennessee
   Topic: Economic Implications of Centralized Collective Bargaining
2. Round Table on Agricultural Economics
   Chairman: William H. Nicholls, Vanderbilt University
   Topic: Causes and Implications of Low Productivity in Southern Agriculture
3. Round Table on Marketing
   Chairman: C. H. McGregor, University of North Carolina
   Topic: Uses of Recently Developed Studies for Market Research in the Southeast

BOOKS RECEIVED

The British Banking Mechanism. By W. Manning Dacey. New York: Longmans, Green and Co., 1952. Pp. 203. $1.80.

Woolen and Worsted Manufacturing in the Southern Piedmont. By James A. Morris. Columbia, S. C.: University of South Carolina Press, 1952. Pp. xiii, 197. $5.00.

British Planning and Nationalization. By Ben W. Lewis. New York: Twentieth Century Fund, 1952. Pp. xi, 313. $3.00.

Personnel Administration. By William W. Waite. New York: Ronald Press Co., 1952. Pp. x, 683. $7.00.

Nene Wirtschaftslehre: Einführung in die Wirtschaftstheorie von John Maynard Keynes und die Wirtschaftspolitik der Vollfeschäftigung. Von Dr. Andreas Paulsen. 2. Auflage. Berlin: Verlag Franz Vahlen, 1952. Pp. ix, 272. 16,75 DM.

Money Market Essays. By Harold V. Roelse and others. New York: Federal Reserve Bank of New York, 1952. Pp. 33.

Atomic Power: An Economic and Social Analysis. By Walter Isard and Vincent Whitney. Philadelphia, Pa.: Blakiston Co., 1952. Pp. x, 235. $4.75.

Principles of Economic Development. By Paul R. Fossum. Tacoma, Wash.: College Press, 1952. Pp. 247. Paper. $3.00.

Economics of Business Enterprise. By Leonard A. Doyle. New York: McGraw-Hill Book Co., 1952. Pp. xiii, 343. $5.00.

Law: In Its Application to Business. By William H. Schrampfer. Rev. ed. New York: Rinehart & Co., 1952. Pp. xviii, 1903. $7.50.

Fundamentals of Economics. By Myron H. Umbreit and others. 2nd ed. New York: McGraw-Hill Book Co., 1952. Pp. xii, 506. $5.00.

International Monetary Co-operation, 1945–1952. By Brian Tew. New York: Longmans, Green and Co., 1952. Pp. 180. $1.80.

The Industrial Economy. By C. E. Ayres. Boston: Houghton Mifflin Co., 1952. Pp. x, 433. $4.00.

Monetary Policy and the Management of the Public Debt. Hearings before the Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report, Congress of the United States, 82nd Congress, Sec. Sess. Washington: Government Printing Office, 1952. Pp. v, 993.

A Study in the Theory of Inflation. By Bent Hansen. New York: Rinehart & Co., 1952. Pp. xiii, 262. $4.00.

Accounting Procedure for Standard Costs. By Cecil Gillespie. Rev. ed. New York: Ronald Press Co., 1952. Pp. xix, 472. $7.50.

The Group Basis of Politics: A Study in Basing-Point Legislation. By Earl Latham. Ithaca, N. Y.: Cornell University Press, 1952. Pp. ix, 244. $3.75.

Business Fluctuations. By Robert A. Gordon. New York: Harper & Bros., 1952. Pp. xvi, 624. $5.00.

Economics: An Introductory Analysis of the Level, Composition and Distribution

of Economic Income. By Bruce Winton Knight and Lawrence Gregory Hines. New York: Alfred A. Knopf, 1952. Pp. xix, 917, xix. $5.75.

Some Conceptual Aspects of International Economic Development of Underdeveloped Territories. By S. Herbert Frankel. Princeton, N. J.: International Finance Section, Princeton University, 1952. Pp. 25.

The Instability of Consumer Spending. By Arthur F. Burns. New York: National Bureau of Economic Research, 1952. Pp. 87.

Transportation: Principles and Problems. By Truman C. Bigham and Merrill J. Roberts. 2nd ed. New York: McGraw-Hill Book Co., 1952. Pp. xvi, 710. $6.00.

Readings in Economics. Edited by Paul A. Samuelson and others. New York: McGraw-Hill Book Co., 1952. Pp. xii, 484. $3.00.

A Brief Summary of Southern Labor: As Related to Labor in the State of Alabama and the Montgomery Metropolitan Area. Montgomery, Ala.: Research Division, Montgomery Chamber of Commerce, 1952. Pp. 35.

The Man on the Assembly Line. By Charles R. Walker and Robert H. Guest. Cambridge, Mass.: Harvard University Press, 1952. Pp. 180. $3.25.

The Economic System: An Analysis of the Flow of Economic Life. By E. T. Weiler. New York: Macmillan Co., 1952. Pp. 869. $5.75.

A. E. A. Readings in Price Theory. Edited by Kenneth E. Boulding and George J. Stigler. Vol. VI. Homewood, Ill.: Richard D. Irwin, 1952. Pp. x, 568. $5.00.

Unemployment in Antigua: A Report Made to the Unemployment Committee Appointed by the Administrator of the Presidency of Antigua in the British Leeward Islands. By Simon Rottenberg and Nora Siffleet. Rio Piedras, Puerto Rico: Labor Relations Institute, University of Puerto Rico, 1952. Pp. 52.

A Study of the Development of the Antitrust Laws and Current Problems of Antitrust Enforcement. Report of the Department of Justice to the Subcommittee on Monopoly of the Select Committee on Small Business, United States Senate, 82nd Congress, Sec. Sess. Washington: Government Printing Office, 1952. Pp. vi, 58.

Asset Accounting: An Intermediate Course. By William A. Paton and William A. Paton, Jr. New York: Macmillan Co., 1952. Pp. xvii, 549. $5.00.

The Economic Process: Its Principles and Problems. By Raymond T. Bye and William W. Hewett. New York: Appleton-Century-Crofts, 1952. Pp. xiii, 1050. $5.50.

Economic Systems in Action: The United States, The Soviet Union, and The United Kingdom. By Alfred R. Oxenfeldt. New York: Rinehart & Co., 1952. Pp. xiv, 175. Paper, $1.50.

Pricing and Equilibrium: An Introduction to Static and Dynamic Analysis. By Erich Schneider. Translated from the original German by T. W. Hutchison. New York: Macmillan Co., 1952. Pp. xii, 327. $4.00.

Economic Forces in American History. By George Soule. New York: William Sloane Associates, 1952. Pp. viii, 568. $4.75.

Federal Grants and the Business Cycle. By James A. Maxwell. New York: National Bureau of Economic Research, 1952. Pp. 122. $2.00.

The Economics of Heinrich Pesch. By Richard E. Mulcahy. New York: Henry Holt and Co., 1952. Pp. ix, 228. $3.00.

Economics of American Manufacturing. By Edward L. Allen. New York: Henry Holt and Co., 1952. Pp. ix, 566. $5.25.

This Unsuccessful Age. By Walter Eucken. New York: Oxford University Press, 1952. Pp. 96. $2.00.

Effects of Taxation on Industrial Location. By Joe Summers Floyd, Jr. Chapel Hill, N. C.: University of North Carolina Press, 1952. Pp. xiv, 155. $3.00.

Management Controls in Industrial Research Organizations. By Robert N. Anthony. Assisted by John S. Day. Boston: Division of Research, Graduate School of Business Administration, Harvard University, 1952. Pp. xviii, 537. $6.75.

The Million Dollar Lecture and Letters to Former Students. By Erwin Haskell Schell. New York: McGraw-Hill Book Co., 1952. Pp. xi, 177. $3.00.

The Economic Development of Iraq. Report of a mission organized by the International Bank for Reconstruction and Development at the request of the government of Iraq. Baltimore, Md.: The Johns Hopkins Press, 1952. Pp. xix, 463. $5.00.

Creating an Industrial Civilization. Edited by Eugene Staley. New York: Harper & Bros., 1952. Pp. xvi, 368. $4.00.

Advertising at the Crossroads: Federal Regulation vs. Voluntary Controls. By Max A. Geller. New York: Ronald Press Co., 1952. Pp. xi, 335. $5.00.

Principles of Marketing. By Harold H. Maynard and Theodore N. Beckman. 5th ed. New York: Ronald Press Co., 1952. Pp. xii, 792. $6.00.

Economic Stabilization: Objectives, Rules, and Mechanisms. By Walter P. Egle. Princeton, N. J.: Princeton University Press, 1952. Pp. xii, 264. $4.00.

County Income Estimates for Seven Southeastern States: A Report of the Conference on the Measurement of County Income. By John Littlepage Lancaster. Charlottesville, Va.: Bureau of Population and Economic Research, University of Virginia, 1952. Pp. xi, 246. Paper, $5.00.

Methods for Estimating Income Payments in Counties: A Technical Supplement to County Income Estimates for Seven Southeastern States. By Lewis C. Copeland. Charlottesville, Va.: Bureau of Population and Economic Research, University of Virginia, 1952. Pp. xii, 108. Paper, $3.00.

What Do Economists Know? By Benjamin Higgins. New York: Cambridge University Press, 1952. Pp. viii, 166. $2.75.

The Old National Bank of Spokane: The Pioneer "Big Bank" of Spokane and the Inland Empire. By Claude A. Campbell. Reprinted from *Research Studies of The State College of Washington*, Vol. XVII (1949), pp. 73–131, 135–208.

A Reading List on Business Administration. Hanover, N. H.: Amos Tuck School of Business Administration, Dartmouth College, 1952. 6th rev. Pp. 68. Paper, $1.00.

Employment and Economic Status of Older Men and Women. United States Department of Labor, Bureau of Labor Statistics. Washington: Government Printing Office, 1952. Pp. v, 58. Paper, 30¢.

Money and Economic Activity: A Selection of Readings. Edited by Lawrence S. Ritter. Boston: Houghton Mifflin Co., 1952. Pp. viii, 404. $2.95.

How Does Your City Rate?: Comparison of the 57 Largest Metropolitan Areas in 41 Population and Housing Characteristics. By Edward B. Olds. St. Louis, Mo.: Social Planning Council of St. Louis and St. Louis County, 1952. Pp. 112. Paper, $2.00.

Statistical Quality Control. By Eugene L. Grant. 2nd ed. New York: McGraw-Hill Book Co., 1952. Pp. xvi, 557. $6.50.

Behind the Wall Street Curtain. By Edward Dies. Washington, D. C.: Public Affairs Press, 1952. Pp. 153. $2.75.

Monetary Policy and the Management of the Public Debt. Report of the Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report, Congress of the United States, 82nd Congress, Sec. Sess. Washington: Government Printing Office, 1952. Pp. vi, 80. Paper, 25¢.

Business Law. By Ronald A. Anderson and others. 4th ed. Cincinnati, Ohio: South-Western Publishing Co., 1952. Pp. xiii, 975. $5.50.

The Cost of Industrial Movement: N.I.E.S.R. Occasional Papers. By W. F. Luttrell. New York: Cambridge University Press, 1952. Pp. ix, 104. Paper. $3.75.

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